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# A Critical Analysis of International Financial Institutions' Understanding of Political Corruption: A Focus on the IMF, World Bank, and the ANC

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A Minor Dissertation submitted in partial fulfilment of the requirements for the

**Degree of Master of Social Science**

In the

**Faculty of Humanities**

**University of Cape Town**

By

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VDMCHR002

## *COMPULSORY DECLARATION*

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## **A Critical Analysis of International Financial Institutions' Understanding of Political Corruption: A Focus on the IMF, World Bank, and the ANC**

"Comrades!" he cried. "You do not imagine,  
I hope, that we pigs are doing  
this in a spirit of selfishness and privilege?"

*Orwell, Animal Farm*

### **Abstract**

This dissertation argues that the IFIs' understanding of corruption, and thus their anticorruption and good governance policies and prescriptions, is based on the conceptualisation of corruption as a state centric phenomenon. As such, they are not concerned with corruption as a systematic problem. The IFIs' definitions and views, although legitimate, prudent, and legal, are actually the road to ineffectiveness. But broader and more effective policies would require the IFIs to delve into domestic politics. Such political involvement would entail a great deal of risk on their part, and would be beyond their mandate and their appetite.

In order to demonstrate this, this dissertation presents an overview of political corruption and the important role of the party in both the causes and consequences of systematic political corruption. The focus is on the relationship between the political party and the various systems of governance. The case of the ANC in South Africa is used to analyse whether an understanding of political corruption is necessary. The conclusion is overwhelmingly that it is. The case of the ANC highlights the importance of political parties and the manipulation of political power involved in corrupt relationships. The South African political system is a cause of corruption and is open to abuse. The bureaucratic, electoral, and party systems all have a bearing on the nature of corruption in the country. In particular, the regulations surrounding party funding allow for parties to engage in corruption.

The dissertation demonstrates the systematic nature of corruption and highlights certain characteristics and conceptualisations of corruption that the IFIs do not address.

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### Acronyms used.

**ANC:** African National Congress

**BBBEE:** Broad Based Black Economic Empowerment

**BEE:** Black Economic Empowerment

**FPTP:** First Past The Post

**IFIs:** International Financial Institutions

**IMF:** International Monetary Fund

**NP:** National Party

**PR:** Proportional Representation

**SA:** South Africa

**SANDF:** South African National Defence Force

**SAPs:** Structural Adjustment Programmes

**WB:** World Bank

WORD COUNT: 24,960

## **1: Introduction**

### **1.1 Research Question:**

What are the strengths and weaknesses of the views of international financial institutions, represented by the IMF and World Bank about corruption? What can we learn from the South African experience of corruption, specifically the ANC's involvement with corruption, that relate to the views of the international financial institutions' views?

### **1.2 Problem Statement**

The views of the IMF and World Bank about corruption are neither identical nor static. But here the basic tendencies in their thinking will be taken as similar and representative of international financial institutions.

The IMF and World Bank tend to see corruption, including the corruption of political parties, as a barrier to development, indeed a cause of underdevelopment. The views of international financial institutions on this matter are vital: these institutions have the power not only to define an issue but to implement a range of policies in tune with those views.

IFIs of course have an understanding of corruption that, although shared among scholars and other studies, is complex. Some of their views have solid footing but other views of IFIs' can be doubted or are not necessarily accurate. The validity of the IFIs' views is more than just a scholarly debate; these institutions implement their views via, for example, SAPs. If these views err about the causes and consequences of corruption of political parties, these programmes are likely to suffer.

The selected case is the ANC in SA since 1994. What can be learnt from the South African experience that reveals the problems of IFIs' interpretations of the causes, characteristics and consequences of political corruption?

Electoral systems in Southern Africa are primarily dominated by dominant-party systems. Since majority rule the BDP has dominated politics in Botswana, Zanu-PF Zimbabwe, and SWAPO Namibia. This one party dominance is, as said above strongly associated with encouraging corruption. In Zimbabwe, where one party-



dominance has broken down, the consequences of ZANU-PF's corruption are now a major factor in its resistance to hand over power.

Since 1994 the ANC has become the dominant party in South Africa. Corruption may well have been an under-recognised feature of the NP rule; after all, in pre-1994 SA the NP showed all the characteristics of a one-party dominant system. Added to this is the kind of corruption typical of a negotiated transition of power.

Since 1994 a great deal of attention has been devoted to the ANC's corruption. The corruption around the Arms Deal takes up the greater share of this literature. News of political corruption is almost a daily occurrence in South Africa, and the problem is said to be worsening<sup>1</sup>. Although they may be valid, my concern is not with popular perceptions of the ANC's corruption.

There is also a great deal of attention to the consequences of the ANC's corruption on the party itself. One line of argument is that corrupt behaviour destroys party unity. The history of the ANC as a revolutionary, moral party contradicts its current image in the popular press. Another line is about the potential political disengagement of talented youth when they witness the party's corruption. This focus is, however, also not the primary concern of this paper.

The ANC is justified as a case in this study as it demonstrates the systematic nature of corruption. Whilst the level of involvement from the International Financial Institutions (IFIs) in the South African economy is limited, the analysis of corruption by these institutions is worldwide. There are in fact very high profile cases of World Bank involvement in South Africa, including the ESKOM investment, which has had allegations of corruption levelled against it.

### 1.3 Thesis Statement:

This dissertation critically examines the causes, characteristics and consequences of political corruption as understood by the IMF and World Bank, considering how, if at all, these views relate to political corruption in and around the ANC.

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<sup>1</sup> Kotze & Masutha (2002) 'Tracking elite opinions on political corruption in South Africa, 1995-2000' *Politeia* 21: 1

The dissertation argues that the IFIs' understanding of political corruption is defined by IFIs' state-centric political mandate. This mandate, which directs the IFIs to deal with corruption only in far as their own activities – lending to governments as representatives of states - does not allow IFIs to delve into a country's domestic affairs, including the corruption in and among the business sector and society. Thus IFIs' view of corruption is state-centric; that is, they do not dig into the domestic arena. It is understood that IFIs' involvement within the domestic political system would have negative political consequences as they are not directly accountable to the local population. One could thus expect the IFIs to refrain from such digging.

The IFIs have given increased attention to corruption but their understanding has not developed much beyond general good governance prescriptions for state-based programmes. What the South African case shows is that state based anti-corruption programmes, to be effective, have to understand domestic politics. The corruption in and around the ANC further demonstrates the importance of political parties in their role in the manifestation and prevalence of corruption in a country.

#### 1.4 Definitions and Approach

Corruption is one of the greatest obstacles to economic and social development. It distorts the rule of law, weakens a nation's institutional foundation, and severely affects the poor who are already the most disadvantaged members of developing societies<sup>2</sup>.

Joseph Nye's seminal definition of corruption is "a political act... [that] deviates from the formal duties of a public role (elective or appointive) because of private-regarding (personal, close family, private clique) wealth or status gains: or violates rules against the exercise of certain types of private regarding influence"<sup>3</sup>. A more refined definition is "the illegitimate use of public roles and resources for private benefit, where 'private' often refers to large groups such as political parties"<sup>4</sup>.

The approach taken here is informed by economic theories of corruption and human behaviour. The assumption will be that corrupt behaviour is a result of 'utility

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<sup>2</sup> World Bank (1997) 'Helping countries combat corruption: The role of the World Bank' Washington

<sup>3</sup> Nye, Joseph (1967) 'Corruption and Political Development: a cost benefit analysis' *American Political Science Review* 61: 2

<sup>4</sup> Bicchieri, Cristina & Duffy, John (1997) 'Corruption Cycles' in Heywood (ed.) *Political Corruption* Oxford: Blackwell

maximising' or 'self interested' actions<sup>5</sup>. As such corruption is viewed as a logical thing, a rational decision, rather than as a character flaw. Utility includes personal power and political advantage as well as financial gain. The problem of corruption is that it presents a "failure to tap self interest for a productive purpose"<sup>6</sup>. Corrupt behaviour occurs because there is a lack of restraint, and a lack of framework to prevent it.

The IMF and World Bank will be taken to represent international financial institutions.

There have been four ANC presidents of South Africa, but the analysis in this dissertation splits ANC rule into two periods. The administrations of Mbeki and Mandela are combined because Mbeki was the dominant influence in both administrations, as Deputy President and then as President. This period also includes the interim presidency of Kgalema Motlanthe. The second period covers the Zuma administration which has been markedly different as the party has become less centralised and more populist.

The liberation movement with seemingly unimpeachable moral backbone of Nelson Mandela now has a party leader previously charged with corruption, fraud, money laundering and racketeering. The ANC has lost some supporters over its corruption allegations, however it is still the dominant party in South Africa and that does not look set to change.

### 1.5 Methods and Evidence

The basis of critical analysis within this dissertation is the South Africa case. The case exposes the strengths and weaknesses of the IFIs' understanding and policy towards corruption.

The research is structured around the IFIs' understanding of corruption and the case-study. The intent of such a design is to (a) structure the case along lines suggested by the perceptions and understanding of corruption of the IFIs'; and (b) to test whether the analytical elements (for example, on causes of phenomena) and predications are upheld by the case.

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<sup>5</sup> Rose-Ackerman, Susan (2009) 'Corruption and Government: Causes, Consequences and Reform' Cambridge university Press

<sup>6</sup> Ibid

The analysis that begins the dissertation focuses on the broad theories and concepts of political party corruption: that is the various theories that have been employed to explain and predict the causes and consequences of corrupt behaviour within the political system. Then the views of the IMF and World Bank on the causes and consequences of corruption are tested. Obviously, these views apply primarily to the causes and consequences of corruption in countries seeking financial aid from the IMF.

The South African case-material is organised around the causes and consequences of the ANC's corruption at the level of the party itself; the government; and the economy. The political party-government relationship is explored with a view on, the electoral, bureaucratic and dominant party systems.

In the examination of causes, the discussion is structured around the constraints and stimuli of corruption. The constraint-stimuli framework thus operates in the relationship of the ANC with the government and the ANC's relationship with the economy.

The method employed is a qualitative analysis. The research focuses on the processes, systems, relationships, and institutions of political corruption. Many of these elements are difficult to quantify. As such this dissertation is a descriptive analysis of corruption at the theoretical level and in the case of South Africa. The study looks at an issue where evidence and data referring to actors' motives and behaviour are hard to identify or are unavailable. This has an impact on the available resources for the study.

I draw on a variety of material. In producing a framework through which to analyse corrupt behaviour in the party I primarily use secondary literature and theoretical works on the subject of political party corruption and corruption within southern Africa. To portray the definitions and views of the IFIs I use some analysis presented in the secondary literature on the subject, but draw mainly from the resources and publications of the institutions themselves. Since the institutions do not in fact have a common definition or view of corruption I focus on commonalities in the reports, working papers, and other documents published by the institutions to produce a general view.

In the analysis of the case itself I deal with secondary literature as well as accounts of corruption and documents surrounding the cases of corruption within the party. I use material from NGOs, Watchdogs, and international organisations on the topic, as well as secondary literature addressing the issues with which I am concerned.

## 1.6 Literature Review

There is a small but growing body of scholarly studies of corruption in South Africa.

There is a reasonably-sized secondary literature on how international financial institutions like the IMF and World Bank view corruption. Often this literature is dominated by scholars who agree with the diagnoses of these institutions.

There is an extensive literature on the issues surrounding corruption. My focus shall be on those that address the issues of party political corruption with which I am concerned.

During the 1960s the attitudes towards corruption were split into two groups: The 'moralists', who regarded corruption as a harmful impediment to development and eroding the legitimacy of institutions. This group of authors included Myrdal, Wraith and Simpkins<sup>7</sup>. In contrast to this was a group of authors who were regarded as 'revisionist' as they viewed corruption as providing a way to bypass inefficient regulation, speed up procedures, and allow political access to be purchased by the excluded.

The current literature on the subject is dominated by the World Bank and the reports which it produces. The bank identifies corrupt behaviour in developing countries as one of the primary obstacles to economic growth. Given the nature of the organisation there is less of a focus on the political implications of corruption, or the erosion of democracy. In terms of combating corruption, the emphasis is on the "Institutional Restraints on Power", overlooking the logic of Mauro that it is not in the interest of those benefitting from corruption to put in place the institutional constraints upon it, hence the difference between the level of rhetoric and policy in South Africa.

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<sup>7</sup> Myrdal (1968) 'Corruption: its causes and effects' *Asian Drama: An enquiry into the poverty of Nations vol.2* New York: Twentieth Century  
Wraith & Simpkins (1963) *Corruption in Developing Nations* London: Allen and Unwin

One of the main cleavages in the literature is the different attitude towards corruption between economists and political scientists. Economists see it as an economic problem; whereas political scientists see it as a political problem. The importance of this dichotomy is self-evident; the way in which one views the problem has a direct impact on the way one constructs the solution. The two sides of the debate follow two correlations of corruption. Corruption is more prevalent in low income countries. Corruption is more prevalent in countries where there is a low degree of democracy.

There is a consensus in the political literature on the importance of the state in economic development. The state is an important aspect in development either as an aid or a barrier. The same is true for any study of corruption. Any assessment on corruption must take the political characteristics of a country into account. The debates focus on the regime type and the strength of institutions. Does it make a difference whether a state is democratic or authoritarian? Are states development orientated or “neo-patrimonial”?

The theoretical role of the state is less important in economic theories of corruption. The focus here is on the individual incentives and constraints. As with most market relationships, corruption is seen as a transaction<sup>8</sup>. The problem with such micro analyses of corruption is that they focus on the individual at the expense of understanding the group mentality and behaviour that yields corruption. This is one of the important factors in the debate surrounding the IFIs.

Empirically there are two important correlations. Corruption is more prevalent in countries with low income and where democracy is weak. Addressing these results separately provides very different interpretations of the causes and consequences of corruption.

Corruption as a political phenomenon is a “deviation from [the] Weberian legal rational model of bureaucratic and democratic rule”<sup>9</sup>. It is a relationship between the state and the private sector<sup>10</sup>. The “grand corruption” that affects political parties is often as a result of party dominance and clientelism. This type of behaviour is

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<sup>8</sup> Shleifer, Andrei & Vishny, Robert (1993) 'Corruption' *The Quarterly Journal of Economics*

<sup>9</sup> Andvig, Jens & Fjeldstad, Odd-Helge (2008) 'Crime Poverty and Police Corruption in Developing Countries' *CMI Working papers 7*

<sup>10</sup> Rose Ackerman (2009)

particularly observable in developing countries. Party corruption can be viewed in this context. It is the domination of elites<sup>11</sup>.

A number of authors address corruption as resulting from the type or strength of the political system.

There are those that regard corruption as resulting from the “democratic deficit” in developing societies<sup>12</sup>. The lack of checks and balances, accountability and transparent institutions allows for corrupt behaviour to take place. Understood in this way, corruption is a result of the lack of constraints upon it. It occurs because individuals are maximising their utility in a rational way, and benefitting from their position and the lack of constraint on such behaviour.

Others regard corruption as occurring due to the lack of ethical leadership and poor governance emphasising “ethical leadership”<sup>13</sup>. This take on corruption is not just about individual activity. Whilst it can be useful to explain it using rational choice and utility maximising theories, these theories emphasise the role of the individual within a broader culture of corruption determined by political leaders. In understanding the corruption of political parties one must understand the role that groups have to play. An important factor in this is the role that leaders can play. “Ethical leadership” can be an effective constraint on individual behaviour.

There is a myriad of economic literature and works that focus on corruption as a rational choice. Susan Rose-Ackerman, formally of the World Bank follows this model, as do Heywood, Mishra, Wick and Bicchieri & Duffy<sup>14</sup>. What these works emphasise are the incentives towards corruption. Using game theory each of these works presents us with a set of payoffs and models with which to analyse corruption. What is important to gather from these is that corruption is not a specific or unique phenomenon in Africa, nor is each individual case especially different. There are

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<sup>11</sup> Fatton, Robert (1992) *Predatory Rule: State and Civil Society in Africa* Boulder, Co: Lynne Rienner

<sup>12</sup> Doig, Alan & Theobald Robin (2000) *Corruption and Democratisation* London: Frank Cass and Co. Ltd.

<sup>13</sup> Hope, K. (2000) *Corruption and Development in Africa: Lessons from country case studies* Basingstoke: Palgrave Macmillan

<sup>14</sup> Heywood, Paul (1997) 'Political Corruption: Problems and Perspectives' in Heywood (ed.) *Political Corruption* Oxford: Blackwell; Heywood, Paul (2006) 'Political Scandals and Corruption' in Heywood et al (eds.) *Developments in European Politics* London: Palgrave Macmillan; Mishra (2006) 'Persistence of Corruption: Some Theoretical Perspectives' *World Development* 34: 2 ; Bicchieri, Cristina & Duffy, John (1997) 'Corruption Cycles' in Heywood (ed.) *Political Corruption* Oxford: Blackwell

trends and recurring characteristics that are present not just in Africa but throughout the world. The implication is that the problem of corruption in southern Africa is caused by the lack of constraints and institutions to prevent the behaviour, rather than being cultural or historical. That is not to say that other factors do not matter rather that they are not the primary cause.

The consequences of corruption are both economic and political. The literature on the economic consequences focuses on its domestic and international effect on investment. Corruption leads to lower growth, yet the reaction to corruption is often worse than the 'wrong doing' itself<sup>15</sup>. That is that while there is a direct impact of corrupt behaviour to the firms and the individuals who are paying the bribe, the secondary consequences of investors being scared off are worse. Other economic impacts are the effect on productivity, inequality, and GDP growth<sup>16</sup>.

## 1.7 Chapter Outline

The dissertation proceeds as follows. Chapter 2 presents an introduction to political corruption, particularly systematic corruption and the effect on the behaviour of political parties. The chapter argues that corruption can occur as a result of the political system. Chapter 3 outlines the IFIs' concern with corruption and highlights the limitations of their views. Acknowledging that the IFIs are limited by their mandates as to what they are able to achieve, the chapter argues that the WB and IMF anti-corruption and good governance initiatives are undermined by the focus on a state centric idea of corruption. Chapter 4 assesses whether or not the view of political corruption held by the World Bank and the IMF is effective in understanding political corruption in South Africa. The chapter demonstrates the importance of the political system as a cause of corruption. It also demonstrates that systems of governance can themselves be corrupt as well as being causes of corruption, where political competition and power are exercised in a corrupt manner. Chapter 6 concludes that the IFIs' definition, views, and focus, although legitimate, legal, and

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<sup>15</sup> Della Porta, Donatella & Vannucci Alberto (1997) 'The perverse effects of political corruption' Political Studies 45 pp. 516-538

<sup>16</sup> Rose-Ackerman, Susan (ed.) (2006) *International handbook on the Economics of Corruption* London: Edward Elgar



prudent, are potentially the road to ineffectiveness. In order to fully combat corruption at a systematic level they will need to broaden their mandates and involve themselves with domestic politics.

## 2: Systematic Political Corruption: The blurring of the party/ state divide

This chapter identifies causes of corruption, highlighting the important disjuncture between the state and the political party. The chapter focuses on the role of political parties within the various systems of government. In the following chapters' analysis of the IFIs' anticorruption efforts, it shall be shown that the IFI's understanding of political corruption stems from a state centric focus rather than a systemic one. The focus of this chapter is to answer the question: To what extent is political corruption a result of the political system?

Corruption is often a result of the political system and in some cases replaces the political system. It is also a relationship between the public and private sphere, where the state represents the public sphere. However, it is more effective to analyse corruption as three separate relationships between firms, the state, and political parties. The nature of these relationships is determined by the political system. This chapter focuses on the corruption surrounding political parties. After defining corruption in a way that emphasises power as well as material relationships, the chapter proceeds to outline systematic corruption in political parties, before analysing what the roles of the party and the private sector are in relation to the electoral, bureaucratic and party systems.

### 2.1: Political Corruption

The essential characteristics of Joseph Nye's seminal definition of corruption are: the abuse of public office for private gain and; that private gain includes benefits to others, such as the family, friends, and other parties, not just the individual<sup>17</sup>. At a political level this involves a process of "duplicitous exclusion"<sup>18</sup>. This process has three elements: 1) the unjustifiable exclusion of a group; 2) those that are excluded

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<sup>17</sup> "Corruption is behaviour which deviates from the formal duties of a public role because of private regarding (personal, close family, private clique) pecuniary or status gains; or violates rules against the exercise of certain types of private regarding influence. This includes such behaviour as bribery (use of a reward to pervert the judgment of a person in a position of trust); nepotism (bestowal of patronage by reason of ascriptive relationship rather than merit); and misappropriation (illegal appropriation of public resources for private regarding uses)." Nye, Joseph (1967) 'Corruption and Political Development: a cost benefit analysis' *American Political Science Review* 61: 2 at 419

<sup>18</sup> Ibid

have a claim to inclusion that is both recognised and violated by the corrupt; and 3) inclusion benefits those included to the detriment of those excluded<sup>19</sup>. Corruption is not simply a relationship between those involved, but also has a detrimental political effect on those that are excluded.

The definition used in this dissertation is not without limitations or criticisms. It arguably does not fully appreciate political institutions within democracies<sup>20</sup>, or the multiple organisations and institutions that make up the '*body politik*'. It also focuses on corruption as an administrative problem, with "political" referring to "state", and "state" referring to "administrative"<sup>21</sup>.

It is also not the only recognised definition of corruption. The public interest definition of corruption conceptualises corruption around the fact that it is against the public interest<sup>22</sup>. This requires empirical evidence of the cost and benefits of any given action in order to determine whether it is corrupt. The public opinion definition where an act is corrupt if public opinion determines it to be so is subjective and often driven by the media<sup>23</sup>.

Acknowledging the limitations and alternatives, the public office definition is used in this dissertation because of its simplicity, inclusiveness, and its parsimony.

Over time, different societies have had different understandings of how politics is conducted and what constitutes legitimate influence<sup>24</sup>. One of the debates in the literature surrounding the problem of bribery is the difference between offering a bribe and the practice of gift giving. The supposed difference lies in the social acceptability of the two practices: bribery is the use of reward to pervert the judgment of a person in a position of trust<sup>25</sup>, whereas, gift giving can be perfectly acceptable and integrated within African or Asian customs<sup>26</sup>. In fact not offering a gift can be just as shocking in some societies as accepting favours or bribes in others<sup>27</sup>. So whilst it

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<sup>19</sup> Ibid

<sup>20</sup> Warren, Mark (2006) 'Corruption as Duplicitious Exclusion' *Political Science and Politics* 39:4, pp. 803-807

<sup>21</sup> Ibid

<sup>22</sup> Leys, Colin (1999) 'What is the Problem About Corruption' in Heidenheimer (ed.) *Political Corruption: A Handbook* New Brunswick, NJ: Transaction Publishers

<sup>23</sup> Philips (1997) at 23

<sup>24</sup> Ibid

<sup>25</sup> Nye (1967) at 420

<sup>26</sup> Cited in Heywood (2006) at 98

<sup>27</sup> Ibid

is unacceptable in some societies to offer some form of payment in exchange for favours, in some societies it is *de rigueur*. However, when too much credence is given to local norms and customs there is a danger of “[embracing] a conceptual relativism which renders any cross cultural analysis of corruption incoherent”<sup>28</sup>. This is one of the major difficulties in constructing an understanding of corruption to be used comparatively.

However, irrespective of the cultural attitudes towards gift giving, the practice of bribery is often perceived as being morally wrong or bad.

This assertion that corruption is bad is not necessarily correct. The use of bribes to avoid excessive regulation and bureaucracy can assist in ‘greasing the wheels’ of business although where there is excessive regulation it incentivises predation as the payment of bribes merely encourages further predation. This will discourage investment and distort market allocation. If on the other hand the excessive level of regulation is simply an extension of an authoritarian state, then the payment of bribes to avoid such regulation may in fact increase investment.

### *2.1.1 Power and corruption*

The public sector comprises of state owned institutions which are controlled by the executive, and the private sector comprises of institutions and firms which are privately owned. Corruption occurs where these spheres interact.<sup>29</sup> It is motivated both by material gain, usually in the form of monetary benefit, and by the capture of power, or more specifically the ability to change public policy, from the state.

Political parties are one such entity that benefits from gaining access to power through, for example, the politicisation of state functions such as the bureaucracy or security and intelligence services. Political parties are also motivated by the desire to maintain power, not just the capturing of rents. Political parties need a support base in the private sector, and most importantly they need a financial support base, in order to obtain funding. Political corruption is not just motivated by the desire to capture rents, but also the desire either to stay in power or to win power. Once

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<sup>28</sup> Philips (1999)

<sup>29</sup> Rose Ackerman (1999)

again, this type of corruption can not be defined by the fact that it is necessarily bad. Such corruption may provide a platform for stability in a transitional state.

The nature and type of corruption that occurs derives from the nature of the relationship between the state and the private sector, and the relative bargaining power of these actors to control the market for corruption<sup>30</sup>.

Corruption is not just a relationship of material gain, it is also a relationship of power. These relationships between firms and political parties, and parties and the state are not determined by the relative balance of power, rather by the political system. The nature of the relationship is certainly important in determining the type of corruption and the extent of it. Yet the relationship itself is determined by the regulatory and legislative environment.

## 2.2: Political systems and methods of government.

This section introduces political systems and government, and explains systematic corruption. In so doing the section builds on the understanding of corruption as a relationship of power, influence and private gain and demonstrates the systematic causes of corruption, and the corruption of political systems. The systems of concern are: the party system; the electoral system; and the bureaucratic system.

This thesis is concerned with political structures and systems, and the corrupting of those structures and systems. Corrupt political systems can be categorised in two ways. The corruption can be systemic or state centric. State centric corruption refers to the state and its institutions of government; political structures and systems that constitute that state, and the corrupting of those structures and systems. This is in contrast to systemic corruption, which refers to widespread corruption throughout the system, including the political system, society and business.

Systematic corrupt corruption is regular, and deliberate. Firstly the system itself can be a corrupt system of government. This means that the entire foundation of the system of government is based on corruption. An example of this is South Africa under *Apartheid* where the government operated entirely through a system of

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<sup>30</sup> Ibid

duplicitous exclusion and favouritism. The second form of systematic corruption occurs when the political system causes or leads to corrupt behaviour.

The focus of this dissertation is both systemic and state centric systematic corruption and the systems of government which lead to corruption, such as dominant party systems, and political appointee bureaucracies.

Political systems are the structures that determine actions relevant to the making of political decisions<sup>31</sup>. In contrast to a political process, a system includes a totality of relevant units and a stability and structure to the interaction of those units.

The units of the political system are the actors: Their role being “the organized sector of an actor’s orientation which constitutes and defines his [or her] participation in an interactive process”<sup>32</sup>.

Examples of such systems are democracy, oligarchy, dictatorship and so on. In each system the role ‘who governs’ is defined. The way in which the government operates is determined by the system, restricting the actions of the individual roles. In each system the relationship between the state and the people is different. This dissertation is concerned with corruption within democratic systems of government. Democracy is the rule by a government chosen by the people through an election. There are multiple types of democracy, with variance in the party system, election process, and government structure.

Within a democratic system of governance there are three important sub systems. These are the party system, the electoral system and the bureaucracy. The nature of the party system is determined by the number and strength of political parties. This is linked to the electoral system. ‘First Past the Post’ systems tend to lead to two parties competing, whereas PR systems tend to lead to multiple parties. The final system is that of the bureaucracy: the civil service. There are international differences in the way in which civil servants are appointed, the amount they are paid, their role, and the capabilities of personnel.

One of the main actors in democratic political systems is the political party.

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<sup>31</sup> Almond, Gabriel (1956) ‘Political Systems’ *The Journal of Politics* 18: 3 at 393

<sup>32</sup> Ibid

## 2.3: Political Parties

Political parties play a key function in representative democracies. Sartori's minimalist definition of a political party is: "Any political group that presents at elections, and is capable of placing through elections, candidates for public office"<sup>33</sup>. They are responsible for opinion formation, the mobilisation of the electorate, the selection of candidates for office and the organisation of election campaigns and the party, around common interests<sup>34</sup>.

There are three important dimensions to corruption within a party as opposed to the state. Firstly, political entities need not be in office in order to exploit that office<sup>35</sup>. Parties are able to benefit from the potential of power as well as state authority itself. However parties can also trade on their potential for power and their role in the legislative decision making, even when they are not in office. Secondly, when funding is directed at parties and used for party purposes, the private gain is in the form of a 'club good'. Thirdly, political corruption does not necessarily involve money changing hands. It often takes the form of trading in influence. Thus political corruption may, in many circumstances, be legal. The use of legal means to deliver favours may include the rewriting of bills or the "exclusion of certain sectors from the scope of a bill"<sup>36</sup>. It may also involve the abuse of state power by the party to fill the bureaucracy with party cadres. These three dimensions to political party corruption are very important. The phenomena cannot simply be understood as an illegal monetary based relationship.

### 2.3.1 Party Financing

In order to complete the functions of opinion formation, mobilisation, and organisation, parties need funds. Party finances pay for the posters, brochures, leaflets, TV and radio adverts, travel, and other expenses involved in winning an

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<sup>33</sup> Sartori, Giovanni (1976) *Parties and Party Systems: A Framework for Analysis* Cambridge: Cambridge University Press at 64

<sup>34</sup> Andrea Rommel. 2003. Political Parties, party communication and new information and communication technologies. Party politics. 9:7

<sup>35</sup> Ibid

<sup>36</sup> Ibid

election. Money “buys the access, favours, skills, goods, and services that are essential to party activity”<sup>37</sup>. Without funding parties simply cannot operate.

The way in which parties are funded can be divided into the three categories. Parties can rely upon internal financing. The purest form of internal financing is individual ownership, where a political party is owned by an individual or organisation. One example of this type of funding was *Forza Italia*, Berlusconi’s political party<sup>38</sup>. Other forms of internal financing come from income from investments, contributions and fees from members, and the sale of party publications.

Another category is external financing. In these cases the party is financed through donations. In some instances political parties receive donations from the Trades Unions. This is typical in European systems such as the UK where the Labour party is in part funded by the Trades Unions. External finance can also come from private donations. This opens up the possibility for corruption. Where parties are funded by an individual outside the party, the level of donation may depend on the willingness of the party to represent the interests of the donor rather than broader membership or electorate. Or as Williams puts it “He who pays the piper calls the tune”<sup>39</sup>. Examples of countries where this type of financing predominate are Japan and Korea. In these countries political parties have long established ties with businesses.

The final type of funding is that which comes from the state. In some countries political parties receive funding from the state as a way of preventing the opportunity for selling influence. This is the case in Germany. One of the problems of this is that those in power then have control of funding for their own party. Or, again, as Williams puts it, it would be like “giving an alcoholic the keys to the bottle store”<sup>40</sup>.

Parties need finances in order to fulfil their role however this also presents the opportunity for corruption.

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<sup>37</sup> Williams, Robert (2000) 'Aspects of Party Finance and Political Corruption' in Williams (ed.) *Party Finance and Political Corruption* Basingstoke: Palgrave Macmillan

<sup>38</sup> Ibid

<sup>39</sup> Ibid

<sup>40</sup> Ibid



Corruption can, in part, be attributed to the growing costs of conducting politics<sup>41</sup>. Firstly, politics has become an ever more expensive business. Political parties, as the main link between the public and politics, have to front the costs of democratic campaigns, which are becoming more expensive over time<sup>42</sup>. Secondly, the increased availability of news, through the development of the 24 hour news network and the internet, means that parties are now on a constant election footing<sup>43</sup>. Given that elections are becoming more expensive anyway, the fact that parties are now effectively on permanent campaign, means that the costs of running a party are significantly increasing. Lastly, the traditional sources of revenue for political parties are drying up<sup>44</sup>. Party membership has fallen. With fewer people paying membership fees as well as the increase in cost there is an increased incentive for European political parties to turn to alternative means in order to generate revenue.

As well as the cost of politics, corruption increases when there is a lack of institutional restraint preventing such behaviour<sup>45</sup>. Rather than assuming that corrupt behaviour occurs when there is an incentive for it, it occurs unless there is a strong incentive against it. This is an important distinction, and is one that is dependent upon the political system.

Firstly, the “institutions... are typically at various stages of consolidation”<sup>46</sup>. For example, the democratic stakes in a developing country are generally higher than those in developed societies. Weak institutions create a level of politicisation within the functional elements of the state. With a non-neutral police force or judiciary, there is a “winner takes all” element to elections. This creates incentives for corruption. Secondly, parties in different systems operate in very different environments. The rules and regulations determining their behaviour are varied. There can be large difference in the number of parties, the relative strength of parties and their political capital, as well as different systems having different funding methods<sup>47</sup>.

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<sup>41</sup> Heywood, Paul (2006) 'Political Scandals and Corruption' in Heywood et al (eds.) *Developments in European Politics* London: Palgrave Macmillan at 167

<sup>42</sup> Ibid

<sup>43</sup> Ibid

<sup>44</sup> Ibid

<sup>45</sup> Yadav (2011)

<sup>46</sup> Yadav (2011)

<sup>47</sup> Ibid

In systems where a political party is responsible for agenda setting and voting the levels of corruption will be higher. This is because parties need to raise higher levels of funding than individual legislators, and they prefer fungible funds. The voting behaviour of legislators is determined by the party rather than the individual. The individual voter has an obligation to 'toe the party line' as his or her political power is determined by the party. This has two effects on the incentives for corruption. Firstly, rather than buying the influence of an individual, the briber is able to use the party framework in order to block purchase votes on any given issue. Secondly, there is an incentive against whistle blowing from within the party. Members of the party are incentivised not to disclose any information on corrupt behaviour as they themselves are dependent upon the party for their position. So, the strength of the party has an adverse effect on the level of corruption. The identity of the political player targeted by business interest groups in the legislature is a significant determinant of the level of corruption. It is the institutions themselves that determine who this target will be<sup>48</sup>. More specifically, countries with legislative rules that create party focused lobbying will experience higher levels of corruption than those where lobbying by business interests is focussed on individuals. In other words, not only are political parties an important actor in corrupt behaviour, they also increase the level of such behaviour.

The need for party funding certainly leads to corruption through the trading of influence. Examples of this type of behaviour include: selling 'face time' with ministers, officials, and party members. Influence trading may take place over many years and be a far more complicated relationship than a simple form of corruption such as bribery. Key argued that "much of what we consider corruption is simply the un-institutionalised influence of wealth in a political system"<sup>49</sup>. This certainly has some value as in most political orders, wealth occupies an uneasy position<sup>50</sup>. Those who control the wealth in a society have a form of leveraged influence over the governing institutions. The way in which this manifests itself depends on the nature of the system.

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<sup>48</sup> Yadav (2011) *Political Parties, Business Groups, and Corruption in Developing Countries* New York: Oxford University Press

<sup>49</sup> Key (1936) *The Techniques of Political Graft in the United States* p407

<sup>50</sup> Scott, James (1972) *Comparative Political Corruption* Englewood Cliffs, NJ: Prentice Hall

### *2.3.2 Liberation Movements*

There are a number of political parties that started out as liberation movements. In southern Africa alone the ANC, Zanu-PF, and SWAPO have dominated politics since each fought for independence in South Africa, Zimbabwe, and Namibia respectively. There are a number of characteristics that distinguish liberation movements from political parties. The case of the ANC demonstrates that these distinguishing characteristics can either cause or enable corruption.

Firstly, the organisation of the movement is distinct from political parties. The relationships between those within a liberation movement and those in a political party are different. Successful liberation movements tend to have highly centralised power and developed hierarchies. These are needed to maintain the pressure and organisation during the liberation struggle. The interpersonal relationships within a movement are also stronger than within a party. Actions that appear to be corrupt in political parties may be viewed by the movement as simply former comrades helping each other out.

By definition these movements were focussed on a single issue: that of liberation. The economic and social policies of liberation movements were often simply those they adopted from whoever was funding them. The adoption of Marxist or Maoist economic rhetoric by a number of African liberation movements was in part simply due to the fact that they were being funded by the USSR or China during the Cold War. The main aim of the movement was to obtain power through non democratic means. This means that once in power, these movements often have a pragmatic attitude towards policy.

Another feature of these movements is that, again by definition, those in the movement had no experience of government. This means that those who did not have the appropriate skill level to be in a position of authority had access to public office. It also meant that those in power were unfamiliar with the practical working of the office. The temptation of abusing this office for private gain was often too great.

As a final characteristic of Liberation Movements, Melber points to the issue of the 'Third Term Movement'<sup>51</sup>. This refers to the fact that many incoming liberation leaders were constitutionally bound to only serving two terms. Many attempted to change this, with varying degrees of success. The justification for such a move was often that the only chance to maintain stability within the country was for the incumbent president to stay in office. However, this change necessitates the undermining of democracy. In some cases, such as Zimbabwe, the will of the leader to maintain power has led to corruption and the development of clientelistic networks.

In the case study presented in this dissertation, that of the ANC in South Africa, some of the characteristics of the party are derived from its history as a liberation movement and this has an impact on the level of corruption. Very tight personal relationships, and the limited policy experience of the early years of government, were important elements in creating an environment for corruption.

#### **2.4: Dominant Parties: Party and Electoral Systems**

Dominant parties are parties or political organisations that have successively won election victories and whose future defeat cannot be envisaged or is unlikely in the near future<sup>52</sup>. They establish electoral dominance for an uninterrupted and prolonged period; enjoy dominance in the formation and running of governments; and consequently shape and dominate the public agenda, notably with regard to pursuit of 'historical project'<sup>53</sup>.

The connection between party competition and state exploitation has long been recognised in the literature<sup>54</sup>. The behaviour of politicians is moderated by the threat of being voted out at the next election. Elections hold parties to account, however in the case of a dominant party where the likelihood of being voted out is very low then the constraints are not binding. In theory incumbent parties are held to account by the opposition, although political competition in South Africa is racially charged and

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<sup>51</sup> Melber, H. (2003) 'From liberation movements to governments: on political culture in Southern Africa' *African sociological Review* 6: 1 pp. 161-172

<sup>52</sup> Suttner, R. (2006) 'Party Dominance 'Theory': Of what value?' *Politikon* Vol 33: 3

<sup>53</sup> Pempel (1990) *Uncommon democracies: The one-party dominant regimes* Ithaca, NY: Cornell University Press

<sup>54</sup> Kopecky, Petr (2011) 'Political Competition and Party Patronage: Public Appointments in Ghana and South Africa' *Political Studies* 59. pp. 713-732 pp714,.

accusations of corruption from the opposition are often labelled as racist<sup>55</sup>. Finally, Grzymala-Busse argues that political competition encourages those in power to develop institutions, rules, and regulations against corruption, to insure them against permanent exclusion when they find themselves in opposition. If the party is unable to envisage itself in opposition then the incentive for such insurance is very low.

The theory of dominant parties suggests that because of the level of current and expected future influence the party has over the political system it is able to operate in a way that is not constrained. Because the party cannot foresee losing power then it does not function as though constrained by the threat of being voted out. This means that it is able to operate in a corrupt manner because the role of democracy in curbing corruption does not apply.

The theory of dominant parties is contested. Some scholars, such as Reddy, argue that “dominant parties with legitimacy, having a strong democratic tradition and institutionalised mechanism for conflict management, contribute to the consolidation of democracy in deeply divided societies”.<sup>56</sup> Others however argue that as a theory it offers little explanatory power to the way in which politics is conducted in the “real world”<sup>57</sup>.

Irrespective of this, in theory the lack of democratic constraints offers the opportunity for the ruling party to operate in a way that it would otherwise be unable to. The existence of a dominant party may give rise to increased corruption as the expectation of being voted out of office is very low.

As well as the reduced democratic constraints dominant party systems encourage corruption through ‘trading influence’. In this case ‘trading influence’ means more than simply those in the public sphere employing their powers of office for private and self-serving ends in the selling and buying of public decisions<sup>58</sup>. It encapsulates relationships that are non-monetary, or where the benefit is accrued elsewhere. There are many reasons why this type of behaviour may take place, one of which is

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<sup>55</sup> Shrire (2001) 'The Realities of Opposition in South Africa: Legitimacy, Strategies and Consequences' *Democratization* 8: 1, pp. 135-148

<sup>56</sup> Reddy (2005) The congress party model: South Africa's African national congress and India's Indian National Congress as dominant parties *African and Asian studies* Vol 4: No3 at 297.

<sup>57</sup> Suttner (2006)

<sup>58</sup> Offe, C. (2004) 'Controlling Political Corruption: Conceptual and Practical Issues' in Kornai, J. & Rose-Ackerman, S. (eds.) *Building A Trust Worthy State in Post-Socialist Transition* London: Palgrave Macmillan

the political exclusion of a minority which occurs under a dominant party. Scott argues that in these regimes, there are groups that gain preferential formal access to the political process to the detriment of groups with potential political resources who are disadvantaged in the formal process.

This type of exclusion has led to corruption and the purchasing of influence in many post-independence regimes and dominant party systems. In a post-independence society there will be a number of groups with preferential access to the political process<sup>59</sup>. Scott identifies mass organisations and peasant movements, as well as minority and expatriate business groups and the military as groups that face potential exclusion<sup>60</sup>.

Taking the example of minority and expatriate business groups: In a post-independence society it is highly likely that there a number of wealthy elite who have lost political influence in the transition. These may be wealthy expatriates or members of other minority groups that have retained economic wealth in the post-independence society. One way for those that are excluded from the political process to gain access to political capital is to buy it. Groups that have high economic wealth and yet low political capital have an incentive to use corruption as a means of obtaining influence<sup>61</sup>.

Another aspect of party dominance is that, given the length of time in office, the role of the party and that of the state become merged. The distinction between party and state become blurred, giving the political party the ability to act as the state, given the level of access it has. Failure to distinguish between the party and state resources often leads to corruption. This was the case in Kenya under the leadership of Daniel Arap Moi.

Parties that have this level of dominance, such as the ANC in South Africa or the INC in India, often have such high levels of support and legitimacy because of their role as liberation movements.

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<sup>59</sup> Scott (1972)

<sup>60</sup> Ibid

<sup>61</sup> Ibid

## 2.5 Patronage and Clientelism: The Political Party and the Bureaucratic System

Clientelism is a “relationship of exchange between unequals”<sup>62</sup>. It is an exchange of both wealth and power. Furthermore it is the “analysis of how persons of unequal authority, yet linked through ties of interest and friendship, manipulate their relationships in order to attain their ends”<sup>63</sup>. As with all corrupt relationships, clientelism is an exchange of both wealth and power. A more focused definition may be that the study of clientelism is the “analysis of how persons of unequal authority, yet linked through ties of interest and friendship, manipulate their relationships in order to attain their ends”<sup>64</sup>. Patronage is slightly different: Patronage is the bestowal of a position, whereas clientelism is the exchange of goods and services for political support. Patronage may be used as a way of building clientelistic networks, but the two are separate concepts. Both involve sharing influence through a network of existing relationship in order for each side to gain some form of benefit. These relationships tend to develop when entitlements are not protected by constitutional rights endorsed by the centre<sup>65</sup>.

Clientelism as a form of corruption is based on a dyadic relationship between the patron and the client. Once again it is a relationship of exchange that is set by the political system and is exercised through the abuse of the powers of state. An individual of higher social status, or who has access to a higher level of state access (the patron), uses his own influences and resources to provide protection and or benefits to the actor of lower status or access (the client)<sup>66</sup>. The client reciprocates by offering support, assistance and personal services to the patron. Given that the client is dependent upon his or her patron, and there are likely to be many people willing to take up a clientelistic position whilst the number of potential patrons is limited, the relationship is likely to be controlled by the patron.

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<sup>62</sup> Clapham, Christopher (1982) *Private Patronage and Public Power: Political Clientelism in the Modern State* London: Pinter

<sup>63</sup> Weingrod in Ibid.

<sup>64</sup> Weingrod Cited in Ibid.

<sup>65</sup> Rosetti, C. (1994) ‘Constitutionalism and Clientelism in Italy’, in L. Roniger and A. Günes-Ayata (eds) *Democracy, Clientelism and Civil Society* Boulder, CO: Lynne Rienner.

<sup>66</sup> Clapham (1982)

Clientelism is often associated with the particularistic use of public resources in the electoral arena<sup>67</sup>. This implies a much broader client base. Rather than dyadic relationships between two individuals on a personal level a patron may be able to distribute benefits to a whole group within a society in return for political support. This also implies that rather than a single patron, the role may be filled by a group of individuals. In fact a political party may be able to obtain the support of an entire group within the society simply by having the potential to distribute resources either in the present or in the future. Often this is done through 'Kingmakers'<sup>68</sup>. Individuals who have influence over a groups voting behaviour are targeted with offers of money or position in return for the groups' votes<sup>69</sup>.

A form of patronage is the deployment of party cadres into state positions. These relationships corrode the distinction between the party and the state as often the benefit to the client is a position within the bureaucracy or another arm of the state. This was the case in the USA in the 19<sup>th</sup> century where the system of government allowed political parties taking office to reward those faithful to the party with appointments in the federal bureaucracy. The 'spoils system' as it was known, derived its name from the now famous phrase "to the victor belong the spoils of the enemy": said by a Senator of New York following Jackson's presidential win in 1828<sup>70</sup>. The aversion to the system in the USA was based on the undermining of meritocracy and led to the bureaucratic reform movement in the USA in the 1880's.

Many countries in the developing world, especially those who have followed a developmental state model, have political and bureaucratic systems that are effectively 'spoils systems' where bureaucratic appointments are based upon patronage.

This is largely seen by the west as being corrupt and counterproductive to development. However, this assertion is based on the assumption that if the bureaucracy were not filled with party cadres it would be filled with an unbiased meritocracy, and in many places this is simply not the case. Where political

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<sup>67</sup> Roniger, Luis (2004) 'Political Clientelism, Democracy, and Market Economy' *Comparative Politics* 36:3, pp. 353-375

<sup>68</sup> Yehoue, Etienne (2007) 'Ethnic Diversity, Democracy, and Corruption' *IMF Working Paper: WP/07/218*

<sup>69</sup> Bio-Tchane, Abdoulaye & Yehoue, Etienne B. (2007) 'Africa's Missing Ingredients' *Finance and Development* Washington: IMF

<sup>70</sup> <http://www.whitehouse.gov/about/presidents/andrewjackson/>



allegiance is based on ethnicity, and the level of politicisation is very high, by not having people loyal to one's own party in the bureaucracy, it is argued that the result would be to appoint those loyal to the opposition. The functions of the state are inseparable from party politics because politicisation of the population is very high. In these cases the operational ability of the government would be limited. In cases where there is a need for rapid development, appointing bureaucratic positions on a patronage basis is seen as a good thing. This allows development to occur much faster albeit to the detriment of the separation of party and state powers.

An example of this is the '*enveloppes*' system used by President Joseph Kabila in the DRC. By offering low salaries and instead rewarding loyalists with payments of cash the leader is able to buy loyalty<sup>71</sup>. In this case patronage provides stability in a system where multiple state functionaries have entrenched political and economic interests<sup>72</sup>.

Networks of patron-client relationships within a ruling party exemplify the corrosion of the separation of the political party and the state apparatus. The positions of the state become filled with party cadres so that they operate as part of the party, rather than being independent state functionaries. The party in power gains access to all of the functions of the state, rather than just those reserved for political power, such as the executive.

## 2.6 Systematic political corruption: Conclusions

This chapter answers the question: To what extent is corruption systematic? The chapter demonstrates that corruption is more than just a relationship between political parties and private firms. It is more than just the abuse of state power. It is a result of the political system, and in some cases, replaces the political system.

Political corruption refers to the ability of the private sector to shape the "rules of the game"<sup>73</sup>. According to the common definition corruption results in private gain, however, "...private' often refers to large groups such as political parties"<sup>74</sup>.

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<sup>71</sup> Stearns, Jason. (2011) 'Dancing in the Glory of Monsters' at 324

<sup>72</sup> Ibid

<sup>73</sup> Hellman, Jones & Kauffman (2000)

<sup>74</sup> Bicchieri and Duffy (1997)

A political party is: "Any political group that presents at elections, and is capable of placing through elections, candidates for public office"<sup>75</sup>. The political party is able to gain access to the institutions of state, and then corrupt them from the inside, selling on this access to the private sector.

In order to operate, parties need funds. The need for funding creates the incentive for the party to engage in corruption. However the nature of this relationship is system specific. The way in which corruption occurs depends on the relative power of the actors involved. It is also a function of the system, for example Apartheid South Africa was a political system that was entirely based on corruption. In other cases it is the system that leads to corruption. In new democracies the strength of institutions dictates the ability of politicians to abuse these institutions. In some developmental states corruption of institutions may be preferable for development.

The relationship that the party maintains with its donors and funders is determined legally and is structural. However, parties may attract funds in a corrupt manner that is in fact entirely legal. In such cases corruption can be classified as systematic, as the political system is dependent upon corruption. An example of this is discussed in relation to the ANC and Chancellor House in chapter four.

Furthermore systematic corruption occurs when a political party starts to exert its influence over supposedly neutral arms of the state. This includes the politicisation of the bureaucracy, the security and police forces, and the judiciary. This is a corruption of the political system. It is also a result of the system, as often and as has been highlighted in this chapter, the ability of the political party to engage in such behaviour is a result of the party and electoral systems. This is especially true in cases where there is a single dominant party.

This chapter develops an understanding of corruption as a systematic political phenomenon. The following chapter demonstrates that the understanding of political corruption that is held by the IFIs does not fully engage with corruption of this kind. The IFIs have state-centric mandates and to act otherwise is to risk political fallout. Their views and perspectives, although legitimate, legal and prudent, are likely to prove ineffective at combatting systematic political corruption. To do so would

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<sup>75</sup> Sartori (1976) at 64

involve a heavy engagement with domestic political systems this is beyond the remit and appetite of the IFIs. For general policy purposes the IFIs' view of corruption is too narrow and limited as it overlooks the systematic nature of some corruption, as outlined in this chapter.

### 3: The IFIs on political corruption: A state centric view

Fighting corruption has become a policy priority for the development community<sup>76</sup>. The IFIs maintain that ineffective states retard and misdirect economic growth, therefore anti-corruption and good governance need to be addressed by those institutions that promote growth and development<sup>77</sup>. The problem is that the conceptualisation of corruption as a characteristic of a failed state overlooks the idea of corruption as a consequence of a political system.

This chapter asks; how do the IFIs conceptualise corruption and what does such a conceptualisation overlook? Since the IFIs do not have a common corruption definition or understanding, this chapter produces a general outline of their approaches highlighting commonalities as well as common oversights. The common feature of the IFIs' approach to corruption is that they focus on corruption as a state centric phenomenon.

To demonstrate this, this chapter argues that the IFIs' interest in corruption originates from the practical need to combat corruption in their own programmes. Following this, the IFIs identified corruption as being one of the main barriers to and development started promoting anti-corruption and good governance initiatives. Because the purpose of the institutions is monetary and state centric, so are their views on corruption. These views overlook the importance of systematic political corruption. As such, their policies will be ineffective in tackling political corruption.

The chapter concludes that the definitions, views, policies and prescriptions of the IFIs' focus on corruption as a state centric concept, and in so doing overlook many of the systematic aspects of it that were demonstrated in chapter two.

#### 3.1 The pragmatic need for an anti-corruption policy

The anticorruption and good governance policies of the IFIs originate from a pragmatic need of the organisations to tackle corruption. This need is driven by the

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<sup>76</sup> World Bank (2012) *Accountability and Legitimacy* [Accessed on 18/06/2012] <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPUBLICSECTORANDGOVERNANCE/0,,contentMDK:22996457~pagePK:148956~piPK:216618~theSitePK:286305,00.html>

<sup>77</sup> Rose-Ackerman, Susan (1997) *The Role of The World Bank in Fighting Corruption* Yale Law Legal Scholarship Repository

desire to combat corruption within state institutions in order to ensure that loans are used correctly. Subsequently their views on corruption are state centric. Both of the IFIs regard corruption as a characteristic of the state, rather than the political system.

The Bank's primary objective is development, with the official goal of poverty reduction<sup>78</sup>. This is achieved through the promotion of foreign investment, international trade, and capital investment. In contrast to the IMF, whose primary objective is international financial stability, the WB is concerned with development from within a country, at the micro level. It is simultaneously an organ of international development and a bank whose capital comes from the contribution of member states<sup>79</sup>. The bank issues around \$20 billion in loans each year, a figure roughly 25% greater than USAID<sup>80</sup>. These loans are used for; investing in goods and services to promote development and; investing in political and institutional reforms.

The original purpose of the bank was to be part of the effort to reconstruct Europe after WWII. However, over the last 40 years the purview of the bank has shifted, and the focus is now on developing countries and global economic development efforts. The shift of focus brought about a change in the problems that the bank had to deal with. However despite this changing purview, the primary focus has remained the promotion of development through issuing loans to capital projects at the domestic level. The anti-corruption and good governance efforts of the WB are an example of this change.

The WB published a series of reports on SSA in the 1980's proposing the need for corruption to be on the development agenda<sup>81</sup>. However, the main strategy of the WB during the 1980s was the implementation of the controversial Structural Adjustment Programmes and the 'Washington Consensus'. One of the main criticisms of the both the SAPs and 'Washington Consensus', was the lack of

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<sup>78</sup> The World Bank Group (henceforth World Bank) consists of 184 member states and is comprised of five organisations: i) the International Bank for Reconstruction and Development (IBRD); ii) the International Development Association (IDA); iii) the International Finance Corporation (IFC); iv) the Multilateral Investment Guarantee Agency (MIGA); v) the International Centre for the Settlement of Investment Disputes (ICSID). Each of these organisations plays a different role within the WB structure; however they work together to reach the objectives of the bank.

Munhoz, Carolina (2007) 'Corruption in the Eyes of the World Bank: Implications for the Institution's Policies and Developing Countries' *Penn State International Law Review* 26:3, pp. 691-708

<sup>79</sup> Ibid

<sup>80</sup> Mallaby, Sebastian (2005) 'Saving the World Bank' *Foreign Affairs* 84: 75 pp.75-86

<sup>81</sup> Mc Williams, J. Nolan (2007) 'Tug of War: The World Bank's new Governance and Anticorruption Efforts' *Kansas Journal of Law and Public Policy* Vol 17:1 pp1-27

attention given to political institutions and in particularly governance, arguably the most glaring omission of the Consensus<sup>82</sup>. It was deemed that reform initiatives tackling governance problems were not necessary for development and therefore outside the Banks mandate. This was in part due to the Cold War environment where uncomfortable issues of state were overlooked to get countries signed up to the neoliberal agenda of the West<sup>83</sup>. The 'taboo'<sup>84</sup> was finally broken in 1996, when the then leader of the Bank, James Wolfensohn gave what was later dubbed the "Cancer of Corruption" speech, based on his experience in Indonesia, which put the issue at the forefront of the Bank's concerns<sup>85</sup>.

The primary need for the bank to acknowledge the detrimental effects of corruption is given by the Bank's charter. IBRD Article III section 5 (b) states that loans granted by the bank are to be used for what they were intended, without regard for other political or non-economic considerations<sup>86</sup>. This means that the Bank has a role in making sure that funds are not lost in corruption in receiving countries. It has been estimated that \$1 trillion is misspent due to corruption each year<sup>87</sup>. The bank has an obligation to its investors that these loans are used and disbursed for the purposes for which they were granted<sup>88</sup>. This obligation is restricted by IBRD article IV section 10 which requires the non-interference of the bank in political affairs<sup>89</sup>. Many people use this as justification for non-interference in systematic political affairs such as multiparty elections<sup>90</sup>. Whereas some argue that a broad interpretation of the charter is essential to serving the interests of its members<sup>91</sup>.

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<sup>82</sup> Ibid

<sup>83</sup> Tanzi, Vito (1998) 'Corruption Around the World: Causes, Consequences, Scope, and Cures' *IMF Staff Papers* 45: 4

<sup>84</sup> Brademas, J. & Heimann, F. (1998) 'Tackling International Corruption: No Longer taboo' *Foreign Affairs* 77: 5 pp. 17-22

<sup>85</sup> Malaby, Sebastian (2004) *The Worlds Banker: A Story of Failed States, Financial Crisis, and the Wealth and Poverty of Nations* New York: Penguin Press

<sup>86</sup> IBRD articles of agreement Article III section 5 B

<sup>87</sup> World Bank (2012) *Six Questions on the Cost of Corruption with World Bank Institute Global Governance Director Daniel Kaufmann* [Accessed on 18/06/2012]

<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20190295~menuPK:34457~pagePK:34370~piPK:34424~theSitePK:4607,00.html>

<sup>88</sup> McWilliams (2007)

<sup>89</sup> "The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes [of the Bank]..." IRBD Article of Agreement IV section 10.

<sup>90</sup> Kaufmann, Daniel (2005) 'Back to Basics: 10 Myths about Governance and Corruption' *Finance and Development* 42: 3 at 3

<sup>91</sup> Ibid

Whereas the Bank is primarily concerned with development and the eradication of poverty by investing in projects within countries, the IMF was created for the purpose of maintaining exchange rates for international free trade<sup>92</sup>. The adoption of free floating exchange rates following the abolition of the gold standard in the 1970's the fund became the international lender of last resort. This role is achieved through the provision of funds to those in need designed to prevent the 'beggar thy neighbour' trade policies, and competitive currency devaluations resulting from face balance of payment shortfalls and financial crises.

Having a 'lender of last resort' introduces a moral hazard into the international financial system<sup>93</sup>. Shortfalls in currency may naturally arise from normal trading, however they may also arise from poor policies undertaken by governments in the knowledge that the fund shall bail them out. In order to curb this, the Fund requires countries to adhere to certain conditions when it accepts a loan. It is these conditions that enable the IMF to have some influence over recipient governments as these are monitored.

The need for the IMF to address corruption derives from their recognition that "corruption undermines the public's trust in its government. It also threatens market integrity, distorts competition, and endangers economic development"<sup>94</sup>. Having identified corruption as a problem the IMF adopted a policy on how to address governance issues and corruption in a guidance note entitled *The Role of the IMF in Governance Issues*<sup>95</sup>.

The guidance note states that the primary functions of the IMF were still to address macroeconomic imbalances and inflation, as well as to promote trade and exchange rate stability<sup>96</sup>. However, the guidance note also acknowledged that "the IMF has found that a much broader range of institutional reforms is needed if countries are to establish and maintain private sector confidence and thereby lay the basis for

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<sup>92</sup> Vreeland, James (2003) *The IMF and Economic Development* Cambridge: Cambridge University Press

<sup>93</sup> Moral hazard is defined as excessive expenditure due to eligibility for insurance benefits.

Marshall, J. (1976) Moral Hazard *The American Economic Review* Vol6 6:5 at 880

<sup>94</sup> IMF (2012) *IMF Factsheet: The IMF and Good Governance* [Accessed on 18/06/2012] [www.imf.org/external/np/exr/facts.htm](http://www.imf.org/external/np/exr/facts.htm)

<sup>95</sup> Ibid

<sup>96</sup> IMF (1997) *IMF Good Governance Guidance Note* Washington: IMF

sustained growth”<sup>97</sup>. The emphasis however is on corruption within the state, rather than as a product of the system. It is aimed at curtailing the behaviour of those within the state, rather than address systematic causes of corruption.

Whilst it is able to impose conditionality on loans and monitor policy, the fund has neither the mandate nor the resources to allow it to adopt the role of an “investigative agency” or “guardian of financial integrity”<sup>98</sup>. Having said this, the fund now has a policy that denies financial assistance to countries where bribery and corruption threaten to undermine economic recovery programmes.

The IFIs are responsible for the interpretation of their own charters and determining their function. The current attitude towards anti-corruption and good governance is a pragmatic response to combatting one of the major barriers to development. However their response is characterised by the types of corruption they have direct contact with or have the ability to monitor through, for example, the IMF ‘Article IV Consultations’.

The IFIs are state centric institutions and therefore have a state centric response to corruption, focussing on corruption within their own programmes and state finances. However, in understanding corruption in this way, cases of systematic political corruption are overlooked.

### 3.2: The IFI’s views on corruption

#### 3.2.1 Definition

The most common definition of corruption used by the IFIs is very broad and economic focussed: “A general definition of corruption is the use of public office for private gain”<sup>99</sup>. Acknowledging that it is hard to form agreement around a precise definition of corruption that is fully satisfactory and comprehensive, a working definition is often that “you know it when you see it”<sup>100</sup>.

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<sup>97</sup> Ibid

<sup>98</sup> Ibid

<sup>99</sup> The definition is widely used throughout the WB literature. Eg. Kaufmann, Daniel (2006) ‘Myths and Reality of Governance and Corruption’ in *The World Economic Forum Global Competitiveness Report 2005-2006* Washington: World Bank pp81-98.

<sup>100</sup> Bannon, Ion (1999) *The Fight Against Corruption: A World Bank Perspective* [Accessed 18/6/2011] [www.iadb.org/regions/re2/consultative\\_group/groups/transparency\\_workshop6.htm](http://www.iadb.org/regions/re2/consultative_group/groups/transparency_workshop6.htm)



The IFIs are able to define corruption to suit their purposes. They are not an academic institution, rather practical organisations. The state centric view of corruption is derived from the fact that the IFIs are themselves state centric institutions. The nature of the type of corruption that the IFIs are most likely to come into contact with, regarding the issuing of loans, requires an economic understanding of the concept<sup>101</sup>. The WB is concerned predominantly with the micro level, whereas the IMF is concerned with the international macro level.

Market orientated definitions of corruption are a way of understanding corruption not a way of defining it<sup>102</sup>. These definitions are contingent on the existence of a system where there is a regulating principle<sup>103</sup>. In other words corruption is defined, not as an act which is income maximising, rather it is income maximising within the constraints of the context in which it occurs. This is determined by the political system and the role of political organisations. There must exist a prior understanding of public office and the expectation of adherence to principles by which the office is defined.

The issue arises that a broad economic definition of corruption overlooks an inherently political aspect of corruption in that it often works through the functions of political parties and other political organisations. A market perspective analyses the incentives for corruption, rather than the systematic characteristics that create the incentives. The causes, characteristics and consequences of corruption identified by the IFIs lead to policy prescriptions that do not take into account the systematic dynamic of political corruption.

### *3.2.2 Operationalization of definition: The state centric approach*

The key aspect in the IFIs' anticorruption framework is the role of the state. This is useful because it focusses on corruption being an abuse of public office. What it does not do is go further than looking at the state, and the public offices of the state, as being a single entity. There is no understanding of corruption as being inherent in political systems, imbedded in parties and other organisations that perform the functions of the state.

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<sup>101</sup> Ibid

<sup>102</sup> Philips, Mark (1997) 'Defining Political Corruption' in Heywood (ed.) *Political Corruption* Oxford: Blackwell

<sup>103</sup> Ibid

Corruption at the state level is a result of the level of government constraints and benefits<sup>104</sup>. Constraints on the government come from legislation, and the level of accountability. Accountability of government is a function of the main pillars of democracy; democratic competition, the rule of law, and the freedom of the press. As well as constraint, corruption at the state level is dependent upon the benefits of corruption. These are largely financial, however the bank also identifies that “political networks dominate important private assets”<sup>105</sup>.

The causes of corruption are always contextual. In different countries the nature of corruption is different. The WB identifies that “Incentives for corrupt behaviour arise whenever corrupt officials have wide discretion and little accountability”<sup>106</sup>. This assumes a game theoretic conceptualisation of corruption as a relationship involving relative payoffs. Both sides benefit. The question that arises is: How does this relationship come about?

- (a) The Policy Environment, resulting from a governance system failure in the state ability to control corruption leading to weak institutions.
- (b) Crime and punishment: Corruption occurs when the probability of getting caught and the ensuing punishment are lower than the benefits accrued<sup>107</sup>.

This concentrates on two systems: governance and criminal. The approach taken by the IFIs is that corruption occurs as a result of a failure of these systems, rather than being a part of the system itself.

A seminal research paper of the IMF presents a number of factors that directly contribute to corruption, including regulations, poorly administered tax systems and the provision of public goods at below market prices through the bureaucratic system<sup>108</sup>. The paper also addresses political corruption in the form of control of spending decisions and other discretionary decisions<sup>109</sup>. The paper identifies the role

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<sup>104</sup> Grey, Cheryl & Kaufmann, Daniel (1998) 'Corruption and development' *Finance and Development* Washington: IMF

<sup>105</sup> Kenny, Charles & Soreide, Tina (2008) 'Grand Corruption in Utilities' *World Bank Policy Research Working Paper WPS4805* at 5

<sup>106</sup> World Bank (1997) *World Bank Development Report: The State in a Changing World* Washington: World Bank

<sup>107</sup> Ibid

<sup>108</sup> Tanzi, Vito (1998) 'Corruption Around the World: Causes, Consequences, Scope, and Cures' *IMF Staff Papers* 45: 4

<sup>109</sup> Ibid

of party funding in causing political corruption as pressure is put onto parties to generate funds. Thus “democracy is not necessarily a cure for corruption”<sup>110</sup>.

The paper also presents a number of indirect causes of corruption: Situations which allow for corrupt behaviour to take place. One such indirect cause is the example set by political leadership. The argument here is that when top leaders either take part in or condone corruption then an example is set for those functioning in the lower levels of the administration<sup>111</sup>.

Anti-Corruption strategies thus focus on good governance. The bank admits that there is “no unique path to good governance” however governance strategies focus on the role of the state rather than the role of parties. The prescription for this abuse of state power is seen as being the promotion of good governance. This encapsulates a conceptualisation of corruption being inherent in the relationship between the public and private sector. The particular aspect of this relationship that is targeted is the relationship between the state and those over which it governs. This overlooks the importance of domestic politics in the formation and creation of the role of the state.

One issue in the field of governance is the imperfect understanding of how politics shape governance<sup>112</sup>. With multiple possible factors and international variance in cases, an overall framework identifying what matters most is almost impossible to create. This has led to a blanket treatment of politics as being an “obstacle” to good governance<sup>113</sup>. This fails to address a number of questions relating to the strength and competitiveness of institutions, especially the parliament: most importantly the role of undue elite influence and clientelism<sup>114</sup>. These are long term relationships that often depend on the party system.

A large amount of the IFIs’ understanding and policy prescription is based upon empirical data. The research focuses on measuring the effects of corruption. In particular, the IMF focusses on the effects of corruption on macroeconomic

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<sup>110</sup> Ibid

<sup>111</sup> Ibid

<sup>112</sup> Kaufmann, Daniel (2003) Rethinking Governance: Empirical Lessons Challenge Orthodoxy Washington: World Bank at 27

<sup>113</sup> Ibid at 27

<sup>114</sup> Ibid at 28

indicators and the WB focusses on the effects at the micro level. This means that the types of corruption that are easier to measure become the focus of anticorruption policy, whereas those forms of corruption that are more covert tend to be overlooked. The emphasis is driven by the availability of data. It is also driven by the assertion that “Chaotic corruption is worse than organised [political] corruption”<sup>115</sup>. This must be in part due to the ease of ability in measuring this type as opposed to trying to measure the level of political corruption.

The types of corruption that are most measureable are those that involve large numbers of both those giving and those receiving bribes. This occurs within the bureaucratic structures of the state, rather than at the top levels of political office. Knack identifies a number of caveats in using such measures<sup>116</sup>. Foremost is that enterprise surveys such as the BEEPS<sup>117</sup> only measure corrupt transactions between business firms and public officials. This focusses on the payment of bribes in areas such as tax collection and business licencing. Firms have an incentive to take part in these surveys, and to answer truthfully in them. The assumption is that greater knowledge of the level of corruption within a country will lead to pressure to combat such corruption. However, what is not covered is state capture at the highest levels. Where private firms are benefiting from inclusive access and influence at the top level they are less likely to provide accurate data for corruption measures. This makes top level corruption hard to measure.

Attempts at measuring corruption at the highest levels are based on perceptions. This also presents difficulties. Firstly, a survey of perceptions on corruption requires that those participating in the survey have a common understanding of what different aspects of corruption constitute. Secondly some forms of corruption revolve around the idea of duplicitous exclusion<sup>118</sup>. In these cases those that are excluded will not have an accurate understanding of the extent of corruption, and those that are included will not be forthcoming with information.

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<sup>115</sup> Mauro, Paolo (1998) ‘Corruption: Causes Consequences, and agenda for further research’ *Finance and Development* 35: 1At 12

<sup>116</sup> Knack (2006) Measuring Corruption in Eastern Europe and Central Asia: A Critique of Cross-Country Indicators *World Bank Policy Research Working Paper*

<sup>117</sup> Business Environment and Enterprise Performance Survey

<sup>118</sup> Warren (2006)

The result of focusing on a state centric economic concept of corruption, and of emphasising measurability, is that corruption is seen by the IFIs as being inherently “bad”. This is supported empirically: an improvement in a country’s corruption index from 6 to 8 (where 0 is the least corrupt and 10 the most) will experience a 4% increase in its investment rate and a 0.5% increase in its annual GDP<sup>119</sup>.

IMF research finds the following empirical effects:

- Corruption reduces investment, and therefore has a negative impact on growth<sup>120</sup>.
- It reduces expenditure on education and health<sup>121</sup>.
- It increases public investment because public investment projects lend themselves easily to manipulations by high level officials to extract bribes<sup>122</sup>. However, it reduces the effectiveness of this expenditure as the money goes towards “white elephant” projects, and projects are completed to low standards<sup>123</sup>.
- It reduces tax revenue because of the impact that bureaucratic corruption has on tax administration<sup>124</sup>.
- Corruption reduces the level of FDI as it has the same effect as a tax. Wei shows that where corruption has a high variance it has a greater negative effect<sup>125</sup>.

Corruption reduces investment and growth by increasing both costs and uncertainty. This is because corruption increases the required return on investment. An investment of a nominal amount of money into a project where there is no corruption will receive a higher yield than the same nominal investment into a corrupt project. This is because all of the investment in the non-corrupt project is ‘value adding’; a return is made on the entire nominal amount because it is all invested. In a corrupt

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<sup>119</sup> Mauro 1998 Based on CPI measures of corruption and WB data on GDP in Mauro, Paolo (1998) ‘Corruption: Causes Consequences, and agenda for further research’ *Finance and Development* 35: 1

<sup>120</sup> Mauro, Paolo (1995) ‘Corruption and Growth’ *The Quarterly Journal Of Economics* 110: 3 pp. 681-712

<sup>121</sup> Mauro, Paolo (1997) ‘Why Worry about corruption?’ *Economic Issues* 6 IMF

<sup>122</sup> Tanzi, Vito & Davoodi, Hamid (1998) ‘Roads to nowhere: How corruption in public investment hurts growth’ *Economic Issues* 12 IMF

<sup>123</sup> Tanzi (1998)

<sup>124</sup> Ibid. at 33

<sup>125</sup> Wei, Shang-Jin (1997) ‘Why is Corruption So Much More Taxing Than Tax? Arbitrariness Kills’ *NBER Working Paper* 6255

project some of the nominal amount goes into non value adding activities, i.e. corruption. These activities have no yield thus the investor receives a lower return on his nominal amount. Yields on LDC bonds highlight this risk. Under the standard scenario of risk-averse capital, it is realistic to suggest that the treasury bonds of corrupt LDCs will require a higher face value price discount or will require a higher yield than the bond of a country with lower levels of corruption<sup>126</sup>.

Another consequence of corruption is that it draws investment into the markets where the potential for rents are highest. This means that money is allocated away from the public sector, and as such the provision of health care and education is undermined<sup>127</sup>. Corruption reduces spending on health and education, because these expenditures do not lend themselves easily to rent extraction<sup>128</sup>. For the same reasons, the expenditure on operations and maintenance is also reduced.

High levels of corruption tend to increase expenditure on publically funded projects<sup>129</sup>. This is for the simple reason that those who receive bribes are those that are in charge of allocating public funds. This can lead to 'white elephants': construction projects that are built, not because there is a need for them, but because an official has been bribed in order to sanction the project, and provide public investment for a construction company to complete it.

### 3.3: IFIs: State Prescriptions

The purpose of this section is not to present an analysis of the effectiveness of the anti-corruption efforts of the IFIs, but rather to ask: What do the policy prescriptions of the IFIs reveal about their views and understanding of corruption?

The WB has adopted an anti-corruption strategy that prescribes action in four key areas<sup>130</sup>:

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<sup>126</sup> Okeahalam, C. C. & Bah, I. (2005) Perceived corruption and Investment in Sub-Saharan Africa. *South African Journal of Economics* Vol. 66: 3

<sup>127</sup> Delavallade, Clara (2006) 'Corruption the distribution of public spending in developing countries' *Journal of Economics and Finance* 30: 2 pp. 222-239

<sup>128</sup> Bannon (1999)

<sup>129</sup> Ibid

<sup>130</sup> World Bank (2012) *World Bank Efforts* [Accessed 18/06/2012]

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPUBLICSECTORANDGOVERNANCE/EXTANTICORRUPTION/0,,contentMDK:20224875~isCURL:Y~menuPK:384473~pagePK:148956~piPK:216618~theSitePK:384455,00.html>

- a) The elimination of corruption in bank funded projects. This follows from the charter, as the bank has a responsibility to its funding members.
- b) Helping countries combat corruption through learning programmes, workshops, and training courses conducted by the World Bank Institute<sup>131</sup>. This includes surveys of households, firms and government officials
- c) Mainstreaming anti-corruption in its operational work and policy dialogue. This is achieved by building internal capacity through training, research, diagnostic tools and knowledge management<sup>132</sup>.
- d) Supporting international efforts to combat corruption: The bank is supporting international efforts aimed at both the act of corruption in international business, as well as internal corruption that has international ramifications<sup>133</sup>.

The WB has worked closely with Interpol and the Financial Action Task Force on Money Laundering at the international level, as well as the Organisation of American States and the Global Coalition for Africa at the regional level. The bank also works alongside and supports the efforts of NGO's in tackling corruption. In particular the WB has supported and collaborated with Transparency International in conducting research and producing working papers on the topic.

The emphasis of WB programmes is in tackling corruption at the bureaucratic level rather than at preventing state capture or addressing political systems<sup>134</sup>. The aim of the programmes is to decrease economic corruption within the bureaucratic functions of the state, rather than corruption of top level officials. This is demonstrated in their use of training courses and capacity building. It is certainly true that corruption can result from a lack of institutional capacity, and the provision of effective training for civil servants can address this. However what this does not

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<sup>131</sup> World Bank (2012) *Helping Countries Combat Corruption*  
<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPUBLICSECTORANDGOVERNANCE/EXTANTICORRUPTION/0,,contentMDK:20224877~isCURL:Y~menuPK:384473~pagePK:148956~piPK:216618~theSitePK:384455~isCURL:Y,00.html>

<sup>132</sup> World Bank (2012) *Mainstreaming Corruption* [Accessed on 18/06/2012]  
<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPUBLICSECTORANDGOVERNANCE/EXTANTICORRUPTION/0,,contentMDK:20224878~isCURL:Y~menuPK:384473~pagePK:148956~piPK:216618~theSitePK:384455~isCURL:Y,00.html>

<sup>133</sup> World Bank (2012) *Supporting International Efforts to Combat Corruption* [Accessed on 18/06/2012]  
<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPUBLICSECTORANDGOVERNANCE/EXTANTICORRUPTION/0,,contentMDK:20224882~isCURL:Y~menuPK:384473~pagePK:148956~piPK:216618~theSitePK:384455~isCURL:Y,00.html>

<sup>134</sup> Huther, Jeff & Shah, Anwar (2000) 'Anti-Corruption Policies and Programmes' *World Bank Policy Research Working Paper WPS2501*

address is the political corruption that occurs through the cadre deployment of political stooges at the top level of the bureaucracy. Because the views of the WB are state centric rather than systematic, their policy focus is on relational corruption rather than systematic corruption.

The policy prescriptions also reveal the extent to which the WB views are informed by empirical measurement of corruption. The empirical evidence shows that “Anti-corruption efforts succeed when rules and regulations are simplified, interactions between firms and public officials are limited and burdens on the private sector are reduced”.<sup>135</sup> Thus a decline in corruption is empirically portrayed as a result of liberalisation<sup>136</sup>. As such the policies of the WB emphasise the need for increased economic liberalisation: a convenient policy prescription given that liberalisation has been top of the WB agenda since the use of SAPs.

Some empirical work is beneficial, such as public opinion surveys which offer a way of articulating citizens’ concerns e.g. the “Bangalore scorecard” and the “Corruptometer” in Argentina<sup>137</sup>. The international surveys completed by NGOs such as TI have also been able to highlight those countries in which corruption is seen to be endemic. A number of studies show that participation leads to reduced corruption<sup>138</sup>.

Views informed by empirical works are by no means problematic. Such studies are essential to understanding the scale of bureaucratic corruption and perceptions of corruption within the business sector. However, views based on empirical results tend to focus on the types of corruption that can be quantifiable and measurable. As such, certain types of corruption, such as the politicisation of bureaucracies and security services tend to be overlooked.

The policy prescriptions of the WB demonstrate an institutional understanding of corruption that focuses on types of corruption that can be measureable, and bureaucratic relational corruption. Such views are state centric and overlook aspects

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<sup>135</sup>World Bank (2012) *Anti-Corruption in Transition 3: Who is Succeeding... and Why?* [Accessed 18/06/2012] <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/0,,contentMDK:20989777~pagePK:146736~piPK:146830~theSitePK:258599,00.html>

<sup>136</sup> Ibid

<sup>137</sup> Huther & Shah (2007) at 7

<sup>138</sup>Huther, Jeff & Shah, Anwar (2000) 'Anti-Corruption Policies and Programmes' *World Bank Policy Research Working Paper WPS2501*



of corruption that occur within, or as a result of the system. The same is true of the IMF prescriptions.

The IMFs' involvement in addressing corruption is limited by a self-imposed restriction to economic aspects of governance<sup>139</sup>. This presents potential policy areas of: Improving management of public resources; and supporting the development and maintenance of a transparent and stable economic and regulatory environment conducive to efficient private sector activities<sup>140</sup>.

Due to the difficulty in separating political and economic elements of corruption the IMF limits itself to three areas of concern: Institutional reforms of the treasury; budget preparation and approval procedures; and tax administration and accounting. In so doing the IMF takes an intended position of not countering systematic political corruption. In only tackling corruption at a state level, not only does the IMF fail to address political corruption, but it also allows anticorruption rhetoric to become a political tool in borrowing countries. Good governance rhetoric may be used by an incumbent regime in order to obtain international support, however little of this talk is ever put into practice.

The Fund advocates the liberalisation of economies. The assumption that the fund makes is that liberal economic policies reduce the opportunity for rent seeking. This involves price decontrol, adopting free floating exchange rates and free trade, and allowing the market to determine the rate of interest<sup>141</sup>. However, in some cases the adoption of liberal policies has not prevented corruption; in fact it has led to the rise of capitalist elites that depend upon it.

The IMF has also advocated the offering of technical assistance to enhance state capacity<sup>142</sup>. This is aimed at addressing bureaucratic corruption in the administrative arms of the state. The aim of the policy is to tackle the corrupt relationship that exists between the state and the citizens at the level where the two are most likely to come into contact. In many societies this is the most prevailing and corrosive type of

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<sup>139</sup> IMF(2007) *Good Governance: the IMF's role* Washington: IMF

<sup>140</sup> Ibid

<sup>141</sup> IMF (1997) *IMF Good Governance Guidance Note* Washington: IMF

<sup>142</sup> Ibid

corruption. However, where there exists a corrupt relationship between the executive of the state and the periphery such policies are ineffective.

To promote transparency in financial transactions the IMF focuses on four key areas: better data dissemination<sup>143</sup>; fiscal policy through promoting the *Code of Good Fiscal Practice*<sup>144</sup>; sound monetary and financial policy by encouraging countries to sign up to the *Code of Good Practice in Monetary and Financial Policy*<sup>145</sup>; and finally, the IMF promotes effective banking supervision. These policies are designed to tackle the corruption that occurs within the institutions of state finance. They further demonstrate how the IMFs' views and focus on corruption are state centric, with the effective running of financial institutions being top of the agenda.

In the case of systematic political corruption many of these policies are rendered ineffective. Whilst they may have some effect on curbing corruption at the bureaucratic level, they do not address corruption at the systematic level. The policy prescriptions of the IFIs are state centric in this regard, a demonstration of the views of the institutions.

### 3.4 The IFIs on corruption: Conclusions

The IFIs' conceptualisation of corruption as a characteristic of a failed state overlooks the idea of corruption as a consequence of a political system.

This chapter demonstrates that the IFIs focus on corruption as a state centric economic phenomenon which overlooks its systematic political nature. In order to combat systematic corruption they would need to re-evaluate their restrictions on political involvement.

The IFIs identify corruption as being "among the greatest obstacles to economic and social development"<sup>146</sup> and fighting corruption has become a policy priority for the development community<sup>147</sup>.

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<sup>143</sup> IMF (2012b) *IMF Factsheet: The IMF and Good Governance* [Accessed on 18/06/2012] [www.imf.org/external/np/exr/facts.htm](http://www.imf.org/external/np/exr/facts.htm)

<sup>144</sup> IMF (2007) *Code of Good Fiscal Practice* [Accessed 18/06/2012] <http://www.imf.org/external/np/fad/trans/code.htm>

<sup>145</sup> IMF (2000) *Code of Good Practices on Transparency in Monetary and Financial Policies* [Accessed 18/06/2012] <http://www.imf.org/external/np/mae/mft/index.htm>

<sup>146</sup> World Bank (1997) *Helping countries combat corruption: The role of the World Bank* Washington: World Bank

The IFIs focus on corruption as emanating from ineffective states which misdirect economic growth<sup>148</sup>. This is driven by the empirical data, of which the IFIs are major contributors to the literature. Thus, by regarding corruption as a state centric concept the IFIs are able to prescribe policies that promote their idea of good governance, without having to be heavily involved in political affairs. Corruption in this sense can be regarded as a behavioural issue, which can be treated by developing institutions.

This has its benefits; however the state centric attitude of the IFIs overlooks the systematic element of corruption: political corruption that occurs as the result of the political system. Both the party system and the bureaucratic system are fundamental in defining the relationship between the political party and the state. In some instances there is a blurring of this divide.

This can be explained by the functions of the IFIs. The purpose of the IMF as an institution is to maintain stability within the international financial system. It is the lender of the last resort to countries. Its involvement in the good governance agenda stems from its monitoring capabilities. The World Bank, by contrast, is concerned with corruption because it has an obligation to those that fund the bank to make sure that bank loans are spent in an appropriate manner. The role of the bank in promoting development has meant that it has to target corruption.

The involvement of the IFIs in anti-corruption and good governance efforts has developed out of the practical requirement of the institutions. As such, their original definitions and attitudes towards corruption have come from a practical standpoint. They are able to define and conceptualise corruption any way to suit their purposes. In doing this they take a state centric standpoint, rather than view corruption as being systematic. This limits their ability to have a long term anticorruption policy. Tackling corruption is not just about institutions, but developing adequate political systems.

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<sup>147</sup> World Bank (2012) *Accountability and Legitimacy* [Accessed on 18/06/2012] <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPUBLICSECTORANDGOVERNANCE/0,,contentMDK:22996457~pagePK:148956~piPK:216618~theSitePK:286305,00.html>

<sup>148</sup> Rose-Ackerman, Susan (1997) *The Role of The World Bank in Fighting Corruption* Yale Law Legal Scholarship Repository

#### 4: Systematic Corruption and Political Parties: The case of the ANC

The purpose of this chapter is to assess whether or not the view of political corruption held by the World Bank and the IMF is effective in understanding political corruption in South Africa. The previous chapter demonstrated that the IFIs are both state centric in their mandates and views on corruption. This chapter argues that the IFIs' understanding is limited as it overlooks the systematic constraints and incentives on political parties in the spread of corruption. The theory explored in chapter two identifies that political parties are integral to political corruption in many ways. By outlining the way in which the ANC as a party has allowed and used political corruption in South Africa, the chapter highlights the systematic nature of corruption that is not targeted by the policies of the IFIs'.

It is worth noting that a number of pieces of legislation make corruption illegal in South Africa, the most recent being the 'Prevention and Combating of Corrupt Activities act 2004'<sup>149</sup>. This includes the outlawing of bias, abuse of trust, and improper inducement to do or not do anything. Also important to note is that, with regard to the distribution of tenders, corruption requires a relational exchange. In these terms, a tender that is given in return for financial benefit is illegal; however tenders awarded on the basis of friendship are not illegal.

The existence of corruption within South Africa is not disputed. At a broad level, the 2011 Transparency International Corruption Perception Index ranked South Africa in 64<sup>th</sup> place with a score of 4.1 out of 10 (Where 10 is the least corrupt)<sup>150</sup>. However in the 2012 TI CPI despite a better score of 43% it had fallen to 69<sup>th</sup> place<sup>151</sup>. This places it at a similar level as Turkey, Georgia, Croatia, Slovakia and Ghana<sup>152</sup>.

On a more detailed level, 32.24 % of firms in South Africa expect to pay a bribe, or offer a "gift" in order to obtain a government contract<sup>153</sup>. What the data points to is that there is a high perception of corruption in business in South Africa. Further

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<sup>149</sup> Prevention and Combatting of Corruption Act RSA, 12 of 2004

<sup>150</sup> Transparency International (2011) [Accessed 18/06/2012] <http://cpi.transparency.org/cpi2011/results/>

<sup>151</sup> In 2012 TI introduced a new system where scores are out of 100 rather than out of 10.

Transparency International (2012) [Accessed 15/01/2013] <http://cpi.transparency.org/cpi2012/results/>

<sup>152</sup> Transparency International (2011)

<sup>153</sup> World Bank (2012d) [Accessed 18/06/2012] <http://data.worldbank.org>

evidence shows that there is a high perception of corruption in the political system. In a survey conducted by 'Afro-Barometer', when asked "how many of the following people do you think are involved in corruption, or haven't you heard enough to say?" 45% answered "all" or "most" for their elected local councillors; 36% think the same for national government officials; 26% for MPs; and 22% for the President's office<sup>154</sup>. However, these are only a measurement of perceptions and they are notoriously over cynical. In contrast to these high perceptions the UNODC found the experience of corruption to be much lower<sup>155</sup>. Perceptions of corruption tend to over exaggerate the problem, and they are driven by accounts of corruption in the media. Having said this, the existence of corruption at all levels in the South African political system is apparent.

The chapter starts with a brief account of corruption prior to 1994 both within the state and within the ANC. This serves to demonstrate that corruption in South Africa is not a new phenomenon. The chapter then outlines the relevant political systems in South Africa highlighting incentives and constraints on corruption. The chapter then uses cases of corruption to highlight the systematic nature of corruption firstly in the Mbeki/Mandela era, and then under the presidency of Jacob Zuma.

The purpose of the chapter is to demonstrate the systematic nature of some of the corruption in South Africa, thus demonstrating the limitations of the IFIs' understanding of corruption as a state centric concept. The cases show how even though the state may use the services of the IFIs in a transparent manner, it may still be a corrupt state.

### *Systematic or Systemic Corruption*

This chapter focusses on state centric corruption in South Africa. That is, corruption that is caused by the political structures and systems, and the corrupting of those structures and systems. The chapter refers to the ANC as the political party, rather than the government to which party members belong.

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<sup>154</sup> Afrobarometer (2006) 'Resurgent Perceptions of Corruption in South Africa' *Afrobarometer Briefing Paper* No. 43

<sup>155</sup> Sole, Sam (2005) 'The State of Corruption and Accountability' in Daniel, J., Southall, R., and Lutchman, J. *State of the Nation: South Africa 2004-2005* Cape Town: HSRC Press

The chapter uses the South African case to demonstrate the political nature of systematic corruption in order to argue that it is possible for the IFIs to engage with a country in a transparent manner despite that country being corrupt. However this does not mean that South Africa does not also suffer from systemic corruption.

There have been a number of cases of corruption that have not been related to political systems. For example the Limpopo administration has been rife with corruption. Also, the 'Travelgate' episode showed that there are members of the ruling party that engage in corrupt practices on a regular basis.

In 2004 110 MPs were reported to be involved in a scam involving fraudulent travel expenses. Almost all were in the ANC including several members in ministerial positions<sup>156</sup>. Of this number only 8 have admitted guilt.

The way in which this was carried out is not complicated. Travel agents contracted to parliamentary travel arrangements offered politicians the option of exchanging their travel expenses for cash<sup>157</sup>. This proved to be very popular until Harry Charlton blew the whistle, for which he lost his job. The police made little headway with the investigation and the case was passed on to the scorpions. Few of those accused were charged; fewer still punished. What this case demonstrates is that there is corruption within South Africa which is not connected to the political system.

#### 4.1 Corruption in South Africa prior to 1994

Corruption in South Africa is not a new phenomenon<sup>158</sup>. At both the bureaucratic and at the political levels the existence of corruption pre dates the introduction of Majority rule in 1994. Many in the popular press and in the population as a whole have a perception that corruption within the ANC demonstrates the failings of the party in government. A small white minority go further and argue that the high levels of corruption demonstrate that the ANC is unfit to govern. These summations are not valid. There are many aspects of corruption in South Africa, many, especially within

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<sup>156</sup> Johnson R.W. (2005) 'Trial reveals corrupt drift of South Africa' *The Sunday Times* Jun 05 2005

<sup>157</sup> Hoffman, Paul (2010) *Whistle Blowers: State lacks the will to protect those who expose corruption* [Accessed 18/06/2012] <http://www.businessday.co.za/articles/Content.aspx?id=122901>

<sup>158</sup> Hyslop, Jonathan (2005) 'Political Corruption: Before and After Apartheid' *Journal of Southern African Studies* 31:4 pp. 773-789

the police service and the health service, are inherited from the National Party government prior to 1994<sup>159</sup>.

As a means of understanding corruption in general, there is little to be gained from comparing the current South African government with that which came before<sup>160</sup>. Contemporary South Africa is a liberal democracy, with a strong constitution and guaranteed freedoms. Prior to 1994 “the state system was itself a form of institutionalised grand corruption” with the authoritarian regime kept in place by entrenched patronage<sup>161</sup>. Yet to produce an assessment of current corruption it is necessary to take account of those elements which are inherited.

#### 4.1.1 The State

Prior to 1994 the state was propped up by Afrikaner patronage. Apartheid was a means of creating a class of wealthy, dominant Afrikaners. The means of achieving this was a system of patronage. Along with this explicit form of corruption there developed a far more covert enterprise. Once the influential elite no longer had the inclination or discipline to maintain apartheid they reoriented the state to create a system which served their own financial interests. As Hyslop notes, “The ethos of the national party leadership almost visibly shifted from one of service to the *Volk* to one of the establishment of Swiss bank accounts.”<sup>162</sup> This was the forerunner to the system that was intended to readjust such discrimination, that of BEE.

The corruption under apartheid was largely bureaucratic; especially in the police, intelligence, and security forces, and provincial and homeland administrations<sup>163</sup>. In the late 1980s the state security forces were being used not only to uphold apartheid, but also to undermine the liberation movement, especially during negotiations. The main priority of the police was not to prevent crime in the total population, but to protect the white minority.

Covert operations were a part of this security framework using funds from the Department of Defence. These went to both the state security apparatus, but also to

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<sup>159</sup> Ibid.

<sup>160</sup> Sole (2005)

<sup>161</sup> Ibid.

<sup>162</sup> Cited in Ibid.

<sup>163</sup> Hyslop (2005)

subversive groups in the homelands. This resulted large unaccountable financial flows.

Outside the covert aspect of state security, corruption was inherent in the bureaucracy. In particular within the police and the health services bribery was seen as a major problem.<sup>164</sup> In 1994 a deputy director in the Department of Health was suspended for the second time for the acceptance of monetary incentives for the rewarding of contracts<sup>165</sup>.

Corruption was also a problem in the homeland administrations. Elements of this have transferred into the new administrations. Of the nine new provinces, those that have seen the lowest levels of corruption have been Gauteng, Northern Cape and Western Cape<sup>166</sup>. These are the three new provinces that did not incorporate former homelands.

The important legacies are mainly in the corruption within the police force and the provinces dealing with the former homelands.

#### 4.1.2 The ANC

One of the defining characteristics of the ANC is that it has historically defined itself as a liberation movement<sup>167</sup>. As a liberation movement the party saw themselves as being embodied in, as opposed to representatives for, their constituency<sup>168</sup>. In this case the constituency is "the people"<sup>169</sup>. The transition to operating as a political party has caused a change not only in the role of the organisation, but also the way in which members operate within it and are accountable to those outside. This section presents a number of characteristics of liberation movements, some of which have rescinded, others which have not.

Liberation movements are not political parties. The two entities operate in very different ways. As stated in chapter two, the role of the political party is to shape public opinion, mobilise the electorate, select candidates for office, and organise the

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<sup>164</sup> Afrobarometer (2006) 'Resurgent Perceptions of Corruption in South Africa' Afrobarometer Briefing Paper No. 43

<sup>165</sup> Ibid

<sup>166</sup> Ibid

<sup>167</sup> Corrigan, Terence et.al. (2011) 'The State of Democracy in South Africa' *Insights into Asian and European Affairs* 02/2010 pp. 153-177 at 158

<sup>168</sup> Ibid

<sup>169</sup> Ibid



party and electorate around common issues. The purpose of a liberation movement is very different: by definition the purpose of the movement is to achieve Liberation. In doing this their structure is very different to that of a political party.

Liberation movements tend to have centralised power structures and developed hierarchies. These movements are not run on democratic principles. This is especially true of the ANC pre 1994. Whilst the ANC was committed to non-racial democracy and the principles of the Freedom Charter reiterated this, the history of the organisation and its operations in the early 1990's created pressures that limited the ability to convert to being a political party. Ottaway argues the ANC was not ready to operate democratically<sup>170</sup>. Operating in exile for 30 years required the party to have a strong central power. This lack of democratic principles and centralised power meant that once in office, what the party deemed to be routine behaviour, outside observers regarded as patronage and corruption.

One way in which liberation movements are like political parties, and indeed all organisations, is that they require funding. Whereas political party funding, although often controversial, is legally regulated the funding of liberation movements is not. In many cases such movements develop mutually beneficial relationships with organised crime as a means of obtaining funds.

The ANC was no exception to this. There were links between the ANC and organised crime, largely through the recruitment of *tsotsis*. Starting in the 1950's the ANC had adopted a policy of recruiting petty criminals into the organisation, especially into the armed wing Umkhonto we Sizwe<sup>171</sup>. It was widely acknowledged at the time that some leaders of the ANC in exile had come from criminal backgrounds, such as Robert Resha and Joe Modise, commander of Umkhonto we Sizwe.

This criminal activity was not the official policy of the party, but a number of people were involved. ANC members were involved in the smuggling of Mandrax into, as well as the smuggling of stolen cars out of, South Africa<sup>172</sup>. Joe Modise was embroiled in such activity. His personal history and the nature of the work that he

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<sup>170</sup> Ottaway, Marina (1991) 'Liberation Movements and Transition to Democracy' *Journal of Modern African Studies* 29: 1 pp61-82

<sup>171</sup> Ellis, Stephan (2012) 'Politics and Crime: Reviewing the ANC's Exile History' *South African Historical Journal* 64: 2 at 628

<sup>172</sup> Ibid

was doing for the movement meant that he was deeply involved in the complicated networks of organised crime and smuggling in the region.

Such activity was frowned upon by the centre of the party. Not only did it undermine the political legitimacy of the party, but also the criminals recruited into the party were easy targets for the state intelligence services<sup>173</sup>. It is a common police tactic to cultivate professional criminals as informants, and the absorption of such networks into the ANC jeopardised the organisation. However, while much was said on the subject, very little action was taken.

This liberation mentality continued after 1994. The introduction of democracy and the election of the ANC did not bring about an internal change within the organisation, rather it merely adapted to its new role. In a speech made in 1997 Dullah Omar, the then Minister of Justice, stated that: "What we are required to do is to Identify our role as government - in other words as a political party – but at the same time to ensure that we as an African National Congress remain a liberation movement"<sup>174</sup>. He goes on to say: "In our liberation movement... we see no contradiction between being a political party and a liberation movement at the same time"<sup>175</sup>. This latter quote was in fact in reply to the accusations of patronage within the organisation. What is revealed by this is that the ANC in government, especially in the early years, still had a conceptualisation of itself as a liberation movement in government, rather than as an elected political party. This has important consequences in terms of attitudes towards patronage.

## 4.2 SA Political Systems

This section outlines the main political systems in South Africa and how they may lead to corruption. It demonstrates that there are causes of political corruption that emanate from the system rather than being specific to the political party. Much of the corruption in South Africa is not a product of individual political decision and agency, it is in fact a result of the systematic constraints and incentives that lead to parties and people being corrupt. The systems in question are the: Electoral System; the Bureaucratic System; the Party System; and the party funding process.

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<sup>173</sup> Ibid

<sup>174</sup> Omah, Dullah (1997) 'Putting the Principles into Practice: The ANC in South Africa' *Guild Practitioner* 54: 1 pp. 1-5 at 2

<sup>175</sup> Ibid

#### 4.2.1 Electoral System

Prior to 1994 South African elections were conducted using the 'First Past The Post' (FPTP) system. Since 1994 elections have been conducted using a 'PR drop quota' system. This involves a party list system and an element of 'top up'. The initial decision to change the system was made during the negotiations over the new constitution. In many ways it can be seen as a constitutional compromise, and the decision did not go unopposed.

The emergence of PR as the electoral system of choice was based upon the idea that it was inclusive, and that it was more reconciliatory than the existing FPTP system<sup>176</sup>. Under a FPTP system the ANC would have won an estimated 70% - 80% of parliamentary seats in each of the elections since 2004<sup>177</sup>. This estimation is based upon the location and concentration of the population demographic groups that would have been least likely to vote ANC. This would obviously have been beneficial to the ruling party, at the cost of crowding out smaller parties. It would have been in their interest to opt for such an election procedure; however by accepting a PR system as a constitutional compromise a number of benefits are accrued. Smaller parties are able to realistically compete for the few seats they may obtain. There is no threshold on how much of the vote is needed to gain seats, so even small parties can get representation in the legislature. The ANC accepted the deal for two reasons: Firstly because it was predicted to produce better long term stability; and secondly because by accepting PR the ANC were allaying suspicions that it wanted total political dominance.

The adoption of a PR system puts inclusivity ahead of accountability<sup>178</sup>. Corruption is a symptom of such a lack of accountability in the system. In the case of the South African electoral system, the emphasis on inclusivity led to a system being adopted that did not have constituencies, and did not have direct voting for candidates. Candidates are appointed from a list. The more votes a party wins, the more people from their list are awarded office. However, candidates are not accountable directly

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<sup>176</sup> Reynolds, Andrew (1999) *Electoral Systems and Democratization in Southern Africa* Oxford: OUP

<sup>177</sup> Ibid

<sup>178</sup> James, Wilmot & Hadland, Adrian (2002) *Shared Aspirations: The Imperative of Accountability in South Africa's Electoral System* EISA

to a constituency. As such they are not subject to the democratic constraint of potentially being voted out by their constituents based upon personal ground. This means that individuals are not held directly to account by their constituents, and as such their behaviour is not constrained. This is a form of systematic corruption as corruption occurs as a result of the lack of systematic constraints.

Another aspect of this is that it places even more power within the party. The centre of the party decides who will be on the list, and at what position they will be. This means that there is very little accountability to the population especially of those at the top of the list. The ability to be put into one of these safe spots ends up being based not upon ability to be an MP, but as a reward for party loyalty. This process leads to an exclusion of the population.

#### 4.2.2 Bureaucratic System

The politicisation of the bureaucracy is one of the main ways in which a political system can become corrupt. This has been the case in South Africa where the ongoing politicisation of the public service, based on cadre deployment, has created a system that is controlled by the political centre.

Under the apartheid government the bureaucracy was used as a way of supporting white privilege. Throughout the bureaucratic system, appointment was based upon colour. The system was used to support the interests of the white middle and working class.

This system was identified by the ANC to be a bastion of white privilege and the race balance within the workforce was seen as immoral. Irrespective of the skills gap that had developed as a result of education bias, the ANC saw the bureaucratic system as being based on apartheid and colonialism, and as such in dire need of reform<sup>179</sup>. For the ANC the skills gap that existed was not important. What was important was that the new system reflected the demographic make up of the nation.

The reformation of a transition bureaucracy does not necessarily lead to corruption, however in many cases it does. South Africa is such a case. The most important factor was ensuring that the race bias of the past was deconstructed and that it was

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<sup>179</sup> Giliomee, Hermann; Myburgh, James; & Sclemmer, Lawrence (2001) 'Dominant Party Rule, Opposition Parties, and Minorities in South Africa' *Democratization* 8: 1 at 168

replaced by a more 'moral' system. However, if positions are not to be rewarded purely on merit, then by what other measure should they be awarded? For the ANC the answer to this question was party loyalty.

Cadre deployment of ANC loyalists was not merely a bi-product of reform; it was the aim of the reform<sup>180</sup>. The ANC conducted strategic politicisation of the bureaucracy, especially during the era of Mandela and Mbeki. The ANC identified that the 'transformation of the state involves first and foremost, extending the power of the NLM (National Liberation Movement) over all levels of power: the army, the police, the bureaucracy, intelligence structures, judiciary, parastatals, and agencies such as regulatory bodies, the public broadcaster, and so on'<sup>181</sup>. The ANC set out to erode the distinction between the political party and the state. This is essentially a spoils system, whereby the winner of the election is, through cadre deployment into public service, is able to politicise the state and form a bureaucracy loyal to the political party.

This cadre deployment has resulted in an erosion of the party state divide. This was especially prominent during the Mandela and Mbeki presidencies. Thabo Mbeki is commonly seen to have been the main political driving force between 1994 and Zuma's election in 2009. This era was characterised by a centralisation of political power around the top of the ANC.

#### 4.2.3 Party System

The ANC is a dominant party. It has not lost an election since it came to power in 1994, and it is yet to fight an election where there is a real possibility of losing<sup>182</sup>. There are two major impacts of this. First, democratic constraints do not apply. If the party has to fight a competitive election there is an incentive not to partake in corruption. Second, the separation of party and state becomes blurred.

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<sup>180</sup> Ibid at 169

<sup>181</sup> ANC 1998 'The State, Property Relations, and Social Transformation' Umrabulo No.5 ; 3<sup>rd</sup> quarter 1998

<sup>182</sup> Butler, Anthony (2004) *Contemporary South Africa* New York: Palgrave Macmillan

Figure 1 shows that the level of support for the ANC in elections is not in decline.  
Fig.1<sup>183</sup>

Year	ANC Votes %
1994	62.2
1999	66.4
2004	69.7
2009	65.9

Source: SA IEC

This is because of the high levels of identification to the party amongst the Black electorate. In a survey conducted by Afrobarometer it was found that 60% of the electorate “felt close” to a party and of these two thirds inclined towards the ANC<sup>184</sup>. This is not surprising. The ANC still has some political capital as the liberation movement amongst older voters. It also, as the dominant part of the tripartite alliance, represents the interests of the majority of the population. The next largest affiliation is to the DA, a party that is trying to shake off its ‘White Party’ image.

This level of dominance has both positive and negative externalities. On the one hand “political stability can establish the preconditions for the longer term entrenchment of democracy”<sup>185</sup>. This suggests that it is better, in the initial period of democracy, to have a dominant party, as competition among parties competing for the new state can cause instability. On the other hand the ANC cannot handle the strains of transition on its own<sup>186</sup>. Given the social upheaval post 1994, the ANC alone does not have the capacity to oversee the transition.

The dominance of the ANC also re-racialises politics in South Africa as political competition is structured around historical affiliations rather than policy or ideology. Schrire argues that this therefore means that competition is structured along ethnic and racial lines<sup>187</sup>. This being the case, any opposition to the ANC is construed as polarising the electorate on racial or ethnic terms.

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<sup>183</sup> South Africa Independent Electoral Commission [Accessed 18/06/2012] <http://www.elections.org.za/content/>

<sup>184</sup> Afrobarometer cited in Corrigan et al. (2011)

<sup>185</sup> Butler (2004) at 118

<sup>186</sup> Schrire (2001)

<sup>187</sup> Ibid

A further problem associated with dominant parties is that they are able to abuse the advantages of incumbency and the state media to 'get elected time and time again'<sup>188</sup>. The party in power is able to mobilise the resources of the state media in order to ensure re-election. The reason this is particularly problematic in dominant party systems is because over time they are able to place party cadres in positions of public media.

The ANC has politicised the South African state, leading to a convergence of State and Party<sup>189</sup>. The distinction between the role of the party and the functions of the state has become blurred. Having benefited from a long period of incumbency the ANC defines itself as a government, rather than as a party in government office. This has allowed the ANC to benefit from "organisational resources"<sup>190</sup> available to it as the government, such as the bureaucracy, as well as the "electoral resources"<sup>191</sup> it has as a political party.

These organisational resources can also be employed to manage the final feature of the ANC as a dominant party. That is, the internal politics of the party. A large amount of the political competition that occurs in South Africa does not happen between parties, as is the democratic norm. Rather, it takes place within the ruling party. Reddy identifies features of the ANC that he draws from a comparison to the Congress party of India. The ANC is a dominant party legitimised through mass support, but consisting of many factions that operate on the notion of consensus seeking within the party, with outside opposition cooperating with factions within the party to gain political influence and access<sup>192</sup>. Reddy argues that this contributes to the consolidation of democracy, which it may do, however it presents the opportunity for those in power to use corruption as both a tool and a weapon<sup>193</sup>.

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<sup>188</sup> Butler (2004) at 123

<sup>189</sup> Mathekga, Ralph (2008) 'The ANC in 'Leadership Crisis' and the Age of Populism in Post-apartheid South Africa' in Pretorius, J. (ed.) *African Politics: Beyond the Third Wave of Democratisation* Johannesburg: Juta Academic

<sup>190</sup> Kopecky, Petr; Spirova, Maria; & Scherlis, Gerardo (2011) *Beyond the Cartel Party? Party Patronage and the Nature of Parties in New Democracies* Paper prepared for the Joint IPSA/ECPR conference, Sao Paulo, Brazil, 16-19 February 2011

<sup>191</sup> Piattoni 2001; Kitschelt and Wilkinson 2006 Cited in Kopecky et al. (2011) at 1

<sup>192</sup> Reddy (2005) 'The congress party model: South Africa's African national congress and India's Indian National Congress as dominant parties' *African and Asian studies* Vol 4: No3

<sup>193</sup> Ibid

The ANC as a dominant party has two effects on political competition in South Africa. The first of these is that political competition is internalised. Contrary to the theory that dominant parties stifle political completion, what is demonstrated by the ANC is that competition is internalised, it happens intra-party rather than inter-party. The ANC, and more broadly the Tripartite Alliance, does not represent a unified political unit. Within the party there is a political spectrum from those who are on the far right who are regarded as 'fascists', and those on the far left in the SACP and COSATU<sup>194</sup>. However, these different factions do not compete in the open political domain; they are factions competing within the ANC. This means that ultimately the central National Executive Committee can control political competition within the country.

The second effect that the dominant party has on competition occurs as a result of the first. The multiple competing factions can be controlled through a system of patronage and internal bargaining. The leader is able to offer political office to potential rivals representing different factions in order to quell any internal competition. This is not unusual and it is not limited to dominant parties. The appointment of Gordon Brown as Chancellor of the Exchequer in the UK was arguably a way for Tony Blair to quell any potential competition. But the ability to use patronage is extended in dominant parties. With the blurred distinction between state and party, leaders are able to use public appointments to their advantage much more.

#### *4.2.4 Party Financing*

The South African political system allows for both private and public funding of political parties. In this respect South Africa is one of the few countries that provides public funding for political parties. This is in part recognition of the difficulty of raising finances, especially for parties representing poor minorities, and also a way of ensuring inclusivity. Provided a party conforms to the criteria set out in the 'Public Funding of Represented Political Parties Act 1997' then they are eligible for funding<sup>195</sup>. This means that, in principle and at a fundamental level, there is no barrier to entry based on cost. This allows for interests and grievances to be

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<sup>194</sup> Holden, Paul & Plaut, Martin (2012) *Who Rules South Africa?* Johannesburg: Jonathan Ball Publishers

<sup>195</sup> Public funding of represented political parties RSA act 103 of 1997



formalised into a party and voiced in the political domain without being restricted by finance.

However, beyond this basic level, the state funding of political parties does not amount to much. Chapter 2 highlights the reasons why parties need funding. The operational costs of a party the size of the ANC are high, as is the cost of fighting elections. In order to operate the ANC cannot rely on public finances, it must turn to the private sector.

The funding system in South Africa allows for political parties to raise funds from its members and from other sources such as international and domestic business, and civil society groups<sup>196</sup>. Contributions may be made directly, or in the form of 'in kind' benefits such as voluntary work, free office space, free advertising, and other goods and services provided for free to the party. What is important to note about the South African party funding system is that in terms of private funding and donations there are a number of ways in which systems may be abused.

The need for parties to explore alternative avenues for funding is a result of the inability for any party to successfully fund itself through membership. This is not a problem that is unique to South Africa. In the UK parties receive most of their funding from donations, or Trades Unions in the case of the Labour Party. The South African case however is amplified by domestic income levels, and high levels of inequality. As such, political parties in South Africa have traditionally found it hard to raise money from membership fees.

One alternative that has developed is the selling of face time with political leaders. There have been a number of ANC initiatives which have capitalised on party members being in positions of state power. This includes one-to-one meetings with ministers and Progressive Business Forum dinners where there are hundreds of guests paying to dine with members of the government.

It is important to note that neither the abuse of the funding system or the lack of political will to change it is specific to the ANC. Across all the main parties in South Africa there is no desire to change the funding system. The DA has not expressed

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<sup>196</sup> <http://www.elections.org.za/content/Dynamic.aspx?id=557&name=Parties>

any desire to change the party funding mechanism because, like the ANC, they depend upon it remaining in its current form.

### 4.3 Corruption in the Mandela/Mbeki Era

This section gives examples of systematic corruption during the presidencies of Mandela and Mbeki. These have been combined as Mbeki was the dominant political force during both. This period is characterised by the centralisation of political power around the core of the party, and the erosion of the distinction between the party and the state. Between 1994 and 2009 the ANC actively sought to politicise the South African state.

#### 4.3.1 A New Government: The Liberation Movement in Public Office

Corruption in the early years was partly caused by the existing structures of the movement and the naivety of the new government. Inexperienced ministers and new public managers were ignorant of many of the proceedings of government including tendering procedures. One Northern Province MEC conceded that “We have never ruled before. We never even knew what a tender board was until we came to power”<sup>197</sup>. The apparent favouritism in the tendering process in the early years of ANC rule could indeed have been due to the inexperience and naivety of ministers. The overlapping nature of Black political and business elites meant that intended or otherwise, there was some favouritism in the allocation of public contracts<sup>198</sup>.

A characteristic of the movement that allowed the spread of corruption was the embedded secrecy adopted whilst operating under apartheid. The ANC was always run on a “need to know” basis, which was an important operating requirement in the apartheid environment<sup>199</sup>. Once it came into power, this culture of secrecy continued. In so doing, the ability for corruption to prevail is self-evident. The organisation was built on secrecy and so even when corrupt behaviour was observed by peers it went unreported.

The naivety of the organisation in no way justifies the corruption of members in the early years of government. The organisational secrecy has also rescinded, and after 18 years in power the ANC cannot blame corruption on teething problems, nor on

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<sup>197</sup> Quoted in Lodge (1998) at 183

<sup>198</sup> Lodge (1998)

<sup>199</sup> Sole (2005) at 94

their history as a liberation movement.<sup>200</sup>. The transformation from being a liberation movement to being a political party took time as there was a lack of political will to change and there was an incentive to capitalise on the political capital. Other liberation tendencies were harder to remove, for example political solidarity and comradeship. Members of the movement have a shared experience of struggle. This creates a sense of loyalty among members. This comradeship has created the opportunity for corruption within the ANC in two ways: the reluctance of members to be 'whistle blowers'<sup>201</sup>; and the creation of patronage base on loyalty networks<sup>202</sup>. Some of this political culture of the exiled ANC transferred into the party post 1994.

The loyalty networks that existed prior to 1994 were still evident after the transition. Hyslop argues that "such loyalties can easily be transmuted into patronage networks"<sup>203</sup>. The small black elite that have emerged has been arguably based on a 'jobs for the boys' type of patronage. This has largely emerged from the policies of Black Economic Empowerment (BEE). These affirmative action policies have been regarded as a type of cronyism. Those who are close to the party are rewarded the greatest. One example of such behaviour is the allocation of housing tenders in Mpumalanga which appears to have been based upon such friendships<sup>204</sup>.

#### *4.3.2 The Blurring of the Party State Divide: ANC Patronage*

Since 1994 the ANC has slowly blurred the distinction between the party and the state in South Africa. Through political appointments the ANC has managed to take control of the public service, the intelligence services, the police and the public media. This has not been a negative externality of reforming the state and the public sector. It has been a strategic advance by the ANC and as such represents a form of corruption.

In South Africa appointments are justified under the auspices of reforming the state. However, under the leadership of Mbeki, the control of appointments was centralised. Even though the party already had control of appointment, through the

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<sup>200</sup> Kopecky, Petr (2011) 'Political Competition and Party Patronage: Public Appointments in Ghana and South Africa' *Political Studies* 59. pp. 713-732

<sup>201</sup> Hyslop (2005)

<sup>202</sup> Lodge (1998)

<sup>203</sup> Hyslop (2005)

<sup>204</sup> Lodge (1998)

Deployment Committee, this political power shifted and came under Mbeki's control. The interests of the mass party became less recognised.

In South Africa there are three sectors that have been politicised by the ANC: the military and the police; the media; and foreign affairs. The last of these has seen the lowest levels of the three and can be justified by the fact that while in exile many of the ANC comrades developed expertise and interests in foreign affairs<sup>205</sup>. A Survey suggests that as many as 60% of South African Ambassadors are considered to be political appointees<sup>206</sup>. The police service appears to be the most politicised<sup>207</sup>. This is partly due to the attempts under the Mbeki government to "shore up" the police department as a measure to combat the rising crime levels in the country<sup>208</sup>. The politicisation of the police and the military is also due to the National Integration Process. This mainly affected the army in the 1990's by sanctioning the integration of ANC former resistance fighters and veterans. This serves as a reason rather than a justification for politicisation of the arms of the state.

Another reason was the determination of the ANC to "transform the state"<sup>209</sup>. This started as a legitimate process to increase the proportion of black civil servants, especially at senior levels. However, this transformed into a process of politicisation. The ANC ensured that its own "cadres" occupied positions within the framework of the state<sup>210</sup>. Not only did this politicise the bodies of the state bureaucracy, but it also undermined their effectiveness<sup>211</sup>. Those who received positions were often under qualified for the position. The capacity of the South African state started to weaken and this was further enhanced by its politicisation and merger with the ANC as a party.

The origin of the ANC advance on the state emanates from the party's own doctrine of centralism, a hangover from the party's development as a liberation movement. ANC members are bound by this ideal of democratic centralism. The party's leadership is expected to exercise 'maximum discipline' among its members, and

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<sup>205</sup> Kopecky (2011)

<sup>206</sup> Ibid

<sup>207</sup> Ibid

<sup>208</sup> Ibid

<sup>209</sup> Corrigan et al. (2011)

<sup>210</sup> Ibid

<sup>211</sup> Ibid

ensure that irrespective of where party members are deployed they remain under the direction of the central party structures<sup>212</sup>.

Following the 1994 election win the ANC identified the need to reform the architecture of state apparatus. Between 1994 and 1997 there were a number of political appointments into the civil service, often as a reward for service during the struggle. However it was after the 1997 Mafikeng National Conference that the total strategic politicisation of the state really started<sup>213</sup>. The conference passed a resolution on cadre deployment with a stated aim to: Identify key centres of power for deployment; and draw up a comprehensive deployment policy and strategy<sup>214</sup>.

This was part of Mbeki's strategy to politicise the state and to extend ANC powers into all areas of the public domain. Senior ANC politicians were deployed to head most state institutions. These included the Reserve Bank, the Prosecution Service and the Revenue Service. It was made very clear to these appointees that their primary loyalty was to the ANC central organisational structures. This is what Hannah Arendt has described as a 'dual authority'<sup>215</sup>: Ostensible authority resides in the constitution, parliament, and cabinet, but real authority resides in the party.

#### 4.3.3 BEE/BBEEE: Clientelism

The ANC has used client networks in order to consolidate its position as the dominant party. The transformation of the state and bureaucracy demonstrates a level of patronage within South Africa, whereas the affirmative action policy of BEE has given rise to accusations of the development of clientelistic networks.

According to some, the transfer of wealth from the white minority to the black majority had started before the ANC had come to power, and had in fact been driven by white business<sup>216</sup>. With the end of apartheid approaching there was arguably an economic appeasement, with the transfer of assets to black ownership. This was made to look like a large scale transfer of wealth, but was in fact relatively small. The vehicles for this were the New African Investments Limited, Real African Investment Limited, and others.

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<sup>212</sup> Giliomee & al. (2001) at 68

<sup>213</sup> Ibid

<sup>214</sup> Ibid

<sup>215</sup> Cited in Ibid at 173

<sup>216</sup> Moeletsi Mbeki (2009) *Architects of Poverty* Johannesburg: Picador Africa

Whether or not a sustainable or even effective wealth transfer mechanism was in place prior to 1994 is debatable. What is more certain is that the ANC needed a policy to transfer assets across the racial divide in a country rife with poverty and inequality.

The BEE act came into being in 2003. The intention was to create a transfer of wealth from white minority, to the previously disadvantaged black majority. This has latterly given way to Broad Based Black Economic Empowerment (BBBEE), which looks to continue the affirmative action policies but targeting a larger sample of the population. BEE has given rise to corruption in two ways, the development of clientelistic networks, and the fraudulent practice of 'White Fronting'.

The BEE policies of the ANC have created a new class cleavage, and for the first time in South Africa it is a Black-Black split<sup>217</sup>. A number of Blacks have benefitted greatly from the BEE policies of the ANC, and they are "increasingly... protective of their gains"<sup>218</sup>. The result of these policies is that a few wealthy Black entrepreneurs are being awarded key government contracts or special deals on land allocation and project development. This has given rise to the pejorative term 'Tenderpreneur', meaning someone who has built up wealth based on obtaining government tenders. This has resulted in the exclusion of the poorer Black population who do not have access to the resources to compete with "their wealthier Black Brothers" or, more importantly, "do not have the political clout of being ANC insiders"<sup>219</sup>. The new division in South Africa is between the Black rich and the Black poor. It is between the elite ANC insiders, and the poor.

The reciprocal side to this relationship is that, if you benefit from the granting of a tender or some other access to wealth granted by the ANC you are expected to repay the debt to the party. Alternatively this relationship can represent the rewarding, by the ANC, of former members or comrades for past allegiance and assistance in the struggle<sup>220</sup>. The links between the ANC and the new elite are in part founded upon the comradeship of the struggle. Those that assisted in the ANC

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<sup>217</sup> Silke, Daniel (2006) 'The ANC in Trouble: Is This the Great Unravelling of South Africa's Liberation Movement' *Australian Quarterly* 78: 4. pp. 4-10

<sup>218</sup> Ibid

<sup>219</sup> Ibid

<sup>220</sup> Sole (2005) at 103

coming to power are now receiving their reward. As already stated, the overlap in membership between the new capitalist elite and the ANC existed prior to 1994. The allocation of tenders is in part based on insider relationships that were forged before the ANC came to power. The loyalty networks of the past have become the client networks of the present.

Ryklief argues that the result of this is a nascent Black ruling class that, although numerically small, is dependent on White capital and the ANC. As such is willing to act as a consolidated and conspiratorial force in order to maintain itself<sup>221</sup>.

This not only summarises the clientilistic nature of the BEE project, but also points to the other aspect of corruption involved in BEE. That is the corruption and fraud that occurs in the private sector in order to gain access to these tenders and potential rents.

The marginalisation of white business since 1994 has resulted in the use of 'fronting' by white businesses in order to gain access to government, both economically and politically. Scott, as outlined in chapter two, identified that influence buying in post-independence regimes is a result of the marginalisation of the former elite<sup>222</sup>. Those who have the material but not the political resources are incentivised to buy influence. Whilst 'fronting' does not represent this fully, it does highlight the role of marginalised interests in corruption in new regimes.

Fronting refers to the practice of White owned companies placing Blacks in a position that would make it seem as if they either own the company, or are at least in a decision making position<sup>223</sup>. Extreme examples of the practice have involved the promotion of low level staff, such as cleaners and drivers, to positions of shareholding without the staff's knowledge in order to improve the company's BEE scorecard<sup>224</sup>. Such practices are widely used in Botswana and Zimbabwe by international companies to get around citizen ownership laws. Either a citizen is

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<sup>221</sup> Cited in Ibid at 103

<sup>222</sup> Scott, James (1972) *Comparative Political Corruption* Englewood Cliffs, NJ: Prentice Hall

<sup>223</sup> PRAAG (2012) *New Bill Will Punish Whites For Passive Black Shareholders* [Accessed 18/06/2012] <http://praag.org/?p=415>

<sup>224</sup> Ntingi, Andile (2011) *State Moves To Curb BEE Fronting* <http://m.news24.com/fin24/Economy/State-moves-to-curb-BEE-fronting-20110612>

given a non-voting share in the company, or a holding company is created<sup>225</sup>. At face value the company gaining the tender has good BEE credentials. However, a holding company is gaining the profits. In other cases Black individuals have willingly acted as a front to gain a tender, and then passed on the contract to a White owned company who does the work for “higher loot”<sup>226</sup>. This encourages corruption further down the project line as a percentage of the money is taken by the front man and then by the company. The BBEE codes of good practice are currently being revised to prevent such practices<sup>227</sup>.

BEE and BBEE have given rise to clientelism. The relationship between the government, the new Black elite, and the old guard white business is now characterised by the power relationship between the ANC and private interests. However it is not only through patron client relationships that the ANC has consolidated power. The Party has also used a system of patronage to repay party loyalty with positions within the state.

These forms of corruption are largely subversive. The issuing of positions of patronage and the clientelistic relationships developed through BEE though corruption are often legal. The remaining case studies reflect the involvement of the ANC party members in illegal corruption. In each case there is an element of party involvement either directly as a perpetrator of corruption, or indirectly as the comradeship and networks of the party members have been utilised to cover up evidence and protect members.

#### **4.3.4 The Arms Deal**

The most notorious case of corruption that continues to dominate the SA media to this day is the bribery and corruption involved in the “Arms Deal”. This is the most covered case in the literature and there are many aspects to it. The main concern of this dissertation is the way in which the events surrounding the arms deal shed light on the corruption within the ANC, and in particular the role of the party mechanism in instigating and covering up the transactions.

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<sup>225</sup> A holding company is a company or firm that owns other companies outstanding stock. Such firms often do not produce any goods or services themselves, rather their sole purpose is to own shares of other companies.

<sup>226</sup> City Press (2011) *State Moves to Close Door on Fronting* [Accessed 18/06/2012] <http://www.citypress.co.za/Business/News/State-moves-to-close-the-door-on-fronting-20110611>

<sup>227</sup> M&G (2012) *Government is closing BEE Loopholes* <http://mg.co.za/article/2012-06-15-government-is-closing-bee-loopholes>



In September 1999 the South African government approved a new Arms acquisition programme. A 1996 white paper had identified South Africa's most immediate security threat to be a domestic one<sup>228</sup>. Despite this, of the four available design options for the re-structuring of the SANDF, cabinet approved the one that emphasised reduced man power and an increase in capital intensity<sup>229</sup>. Following this Armscor, the domestic defence procurement company issued tenders to foreign suppliers. The major pieces were submarines, cCorvettes, helicopters, and fixed wing aircraft.

The international arms industry is secretive, non-transparent, and is dependent upon commissions and bribes<sup>230</sup>. A few large firms dominate the market and compete for deals. The nature of what the firms sell makes the market very non transparent. The integration of different types of hardware and software make it difficult to assess the price of any given piece of equipment. The purchase of a product often includes the physical equipment, as well as the weapon platform, spares, and services. All of which are included in the total price. For example, Grippen aircraft sold to Brazil had a lower price than those sold to South Africa due to different weapon platforms and specifications. Because there are few firms, deals are often secured through the payment of bribes and commissions, and the promise of offsets. Both of these are often included in the cost of the deal, so there is little expense to the firm. Cost plus contracts and relatively small fines for failure to deliver offsets mean that relatively few of the promised benefits materialise.

The failure of offsets to materialise in South Africa as well as the overall cost of the procurement deal has caused political fallout. Much of this is centred on the rampant corruption that the deal invoked.

BAE Systems, the British defence supplier, paid an alleged R1.73 billion in commissions to agents within South Africa<sup>231</sup>. Recipients included Fana Hlongwane who served as a special advisor to the then Defence Minister Joe Modise and Tony

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<sup>228</sup> RSA Department Of Defence (1996) White Paper on National Defence for the Republic of South Africa [Accessed 18/06/2012] <http://www.info.gov.za/whitepapers/1996/defencwp.htm>

<sup>229</sup> Dunne, J.P. & Lamb, G. (2004) 'Defense Industrial Participation: The South African Experience' Ch. 19 in Brauer & Dunne (eds.) *Arms Trade and Economic Development: Theory Policy and Cases in Arms Trade Offsets* Abingdon: Routledge

<sup>230</sup> Ibid

<sup>231</sup> M&G (2008) *How Arms Deal Bribes Were Paid* [Accesses 18/06/2012] <http://www.mg.co.za/article/2008-12-05-how-arms-deal-bribes-were-paid>

Yengeni, the former ANC Chief Whip who received a 4x4 from a company involved in the deal. The commissions were paid through myriad front companies and intermediaries. The purpose however was the same: try to persuade those in charge of the decision for tender to choose 'correctly'. This has resulted in tenders being awarded to companies who were far from the lowest bidders, and in some cases had been ruled out altogether only then to pull through and win the contract.

The sources of corruption around the arms deal included domestic firms as well. The most documented of these cases is the relationship between Shabir Shaik and Jacob Zuma. In the trial of Shabir Shaik it emerged that there existed a long term corrupt relationship between the accused and Jacob Zuma<sup>232</sup>. More specifically it was shown that Zuma received large payments from Shaik in order to use his position to act on Shaik's behalf in securing a share deal that involved a UK based arms contractor. The subsequent cover up of this case demonstrates the attitude of the ANC towards corruption within the party.

Hyslop states that "what is most disturbing about the ANC's response to the arms scandal has been its strong tendency to place organisational loyalty above probity"<sup>233</sup>. In many cases this was driven by self-interest, however what is more widely observed is the "solidaristic political culture" of the party, and the preference to deal with these matters internally. The 2000 Parliamentary Standing Committee on Public Accounts played a lead role in probing into the scandal surrounding the arms deal. Andrew Feinstein, the then leading ANC member on the Committee, was a key actor in opening the deal up to scrutiny. Feinstein was "squeezed out" of the Standing Committee for taking a stance which differed from that of the party.

Whilst Feinstein was "appalled" by the way the party had closed ranks around the issue, it is hardly surprising that it did<sup>234</sup>. Feinstein completed his education overseas and got into politics as an advisor to Jabu Moleketi in 1994, as such he had not been directly involved in the struggle. He was not a true insider in the loyalty networks of the ANC. The party mobilised these networks to close around the issue and suppress it.

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<sup>232</sup> *Shaik vs State* [2] (2006) SCA 134 (RSA)

<sup>233</sup> Hyslop (2005)

<sup>234</sup> Feinstein, Andrew (2009) *After the Party: Corruption, the ANC and South Africa's Uncertain Future* London: Verso

What this case demonstrates is not only the level of corruption within the ANC, but also the role of the political party in facilitating such actions and also covering them up. The party is a movement based on tight loyalty networks and has a preference for (not) dealing with such misbehaviour internally. Part of the reluctance to confront the issue is based upon the extent to which it penetrated into the party. Furthermore the cover up of the deal demonstrates the ability of the ANC to exert its power through theoretically neutral arms of the state.

#### *4.3.5 Party Funding: Chancellor House and the PBF*

From 1994 until the mid 2000's The ANC was consistently short of funds. While it was able to obtain large donations and generate money around election times, there was very little in between. There were times when it could barely pay salaries to administrators and party workers. This tight financial situation was further exacerbated by poor accountancy and internal financial management. This put a massive strain on the party, especially as the financial security and stability was an integral aspect of the party's transition from being a liberation movement to being a political party in office.

During this period the ANC could not rely on its traditional sources of funding. As a liberation movement it had been able to survive through external funding, especially from the Soviet Union and Swedish governments. Much of this support had not been in the form of cash funding, rather it had been 'in kind'. These were not sustainable sources of funding for the new government. The Soviet Union had broken up, and the ANC required finances to pay its workers and fund elections rather than 'in kind' benefits such as tractors and machinery.

The ANC tried at least two methods of party funding before setting up Chancellor House and the PBF. Firstly, it used what Martin Plaut and Paul Holden refer to as the 'Foreign Charitable Model'<sup>235</sup>. This refers to a method of party financing dependent upon donations from overseas. This was initially quite successful for the ANC.

The main factor for the success of the 'Foreign Charitable Model' was Nelson Mandela. In the late 1990's he was one of the most recognised political leaders in the world, and was the figurehead of an international ANC brand. In this capacity he

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<sup>235</sup> Holden & Plaut (2012)

almost singlehandedly raised external funds for the ANC. Leaders from around the world were keen to be seen supporting the new government. At the same time it was an ANC strategy to develop relationships with the international community and much of Mandela's time in office was spent overseas.

A large proportion of these external funds came from regimes that were having their own problems in engaging with the international community. Part of the success in attracting funds was based on the willingness of the ANC to trade in diplomatic recognition for funds. For example, money was donated from the regimes of: Suharto in Indonesia, a brutal military dictatorship; King Fahd in Saudi Arabia, a dictatorial monarchy dependent on corruption and rent seeking; and Sani Abacha, the former president of Nigeria linked to gross human rights violations<sup>236</sup>. These diplomatic relationships were very explicitly based on the ANC's need for funds. The Taiwanese Ambassador to South Africa noted that the main contact point within the inner circle at the top of the ANC was in fact Treasurer General Thomas Nkobi<sup>237</sup>.

The second funding model used by the ANC was even more controversial than the first. The 'Comrades in Arms' funding model was based on the party deploying cadres into positions in business in the private sector. In return for government tenders and beneficial political decisions, these individuals would then make large donations to the ANC party funds. This was conducted in the environment of empowerment and so it was relatively easy for the party to deploy its faithful into the upper echelons of the business community. This type of behaviour is covered in this dissertation in the section on BEE and clientelism. The 'Comrades in Arms' model became less favourable after the ANC was implicated in the 'money for arms' scam being run by the Iraqi government<sup>238</sup>.

The party has used their access to the state to benefit from the use of electoral resources. In the 2009 electoral campaign the ANC were accused of distributing

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<sup>236</sup> Ibid

<sup>237</sup> Ibid

<sup>238</sup> Ibid

state controlled food aid to supporters and away from those that may support opposition parties<sup>239</sup>.

#### 4.4 Corruption under Zuma

Under the presidencies of Mandela and Mbeki political corruption in South Africa was characterised by the centralisation of power, and the dominance of the party. Under Zuma this has reversed to some extent. Starting with the political rivalry between Zuma and Mbeki, the nature of corruption in recent years has been more about the abuse of the state for internal political competition within the party, and the decentralisation of power. The decentralisation of power has created internal faction fighting, and the realisation within the alliance that the anti-Mbeki alliance that helped bring about the regime change was merely a 'coalition of convenience'.

##### 4.4.1 Internal Political Competition and the Erosion of the State

The abuse of state resources has increasingly been about internal faction fighting within the ANC rather than the expansion of the party's influence. Not only has corruption been used as a political weapon, the means of uncovering such abuse has involved the politicisation of the police and security forces.

Allegations of corruption have been used as a weapon against potential rivals. Accusations of corruption can be made against those that are perceived as a threat, thus eliminating the threat. By exposing the illegal activities of a rival, the leader should be able to maintain power. The classic example of this within the ANC were the allegations of corruption against Jacob Zuma. Zuma faced 16 counts of corruption, money laundering, fraud, and racketeering stemming from the multimillion dollar arms deal<sup>240</sup>. The charges came just days after Zuma was elected as President of the ANC<sup>241</sup>. This effectively put him as the next national president and thus a rival to Mbeki. The judge dismissed the charges against Zuma stating that the prosecutors had not followed procedures and that the charges appeared to be part of a politically motivated plot involving Thabo Mbeki<sup>242</sup>. Zuma's statement that he was merely a provincial minister at the time of the deal lends credence the theory that this

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<sup>239</sup> Price C. (2009) "ANC lures Hungry voters with food" *Sunday Times* 12 April 2009; Price ,C. (2010) ANC no stranger to the strategy of buying elections" *The Times* 21 April 2010

<sup>240</sup> Brulliard, K.(2008). 'S. African party weighs Mbeki's fate' *The Washington Post* sept 20 2008

<sup>241</sup> Ibid.

<sup>242</sup> Ibid.

was a politically motivated charge<sup>243</sup>. This is not to say that Zuma is not guilty of corruption, the evidence presented at the trial of Shabir Shaik's suggests as much<sup>244</sup>. However what it does demonstrate is the using of corruption allegations by an incumbent as a political weapon to oust rivals.

The link between this and the corruption of the political system is that invariably independent state bodies are used to fight political battles. For example, there has been a politicisation of the police and the security forces.

The disbandment of the Directorate of Special Operations (DSO, or "scorpions") prompted heavy criticism from outside the party accusing the party of exerting undue influence on the anti-corruption task force<sup>245</sup>. ANC Secretary General Gwede Mantashe admitted that the decision was taken in order to protect the ANC and its members<sup>246</sup>. It was a reaction to the unit's investigations into top level ANC officials, including Jacob Zuma, Blade Nzimande, and Ngoako Ramatlhodi.

Furthermore, state intelligence agencies have been used within the party to participate in internal faction fighting. This originated in the battle for power between Mbeki and Zuma and includes the fabrication of evidence in the hoax e-mail scandal and the political fall out emanating from the Browse Mole Report.

#### *4.4.2 Party Funding: "Politics and Business go Together"*

The politicisation of the state continued from the Mbeki presidency, however the use of state resources for internal faction fighting has increased, largely as a result of the political competition between Mbeki and Zuma and the transfer of power from one to the other.

Another form of corruption that has continued, and changed in nature, is the corruption surrounding party funding. In 2007 it was revealed that the ANC has been selling face time with ministers in an organised scheme to bring business and government together. The practice was described as a "private ANC business

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<sup>243</sup> R.W Johnson 2008 'After the rape trial a bid for the presidency' *Sunday times* Oct 8 2008

<sup>244</sup> *Shaik vs The State* (2) (2006) SCA 134 (RSA) In the judgment it was stated that "Between 1996 and 2002 Shaik and Mr Jacob Zuma engaged in what the trial court appropriately called a 'generally corrupt relationship'" at [8]

<sup>245</sup> Zille, Helen (2008) *The ANC's Political Thuggery will lead to its Demise*[Accessed 18/06/2012] <http://www.politicsweb.co.za/politicsweb/view/politicsweb/en/page72308?oid=107651&sn=Marketingweb%20detail>

<sup>246</sup> Ibid

initiative to assist business people to network with ANC policy makers”<sup>247</sup>. There were three levels of membership with increasing charges, all of which went through Luthuli house.

Under Zuma the use of the Progressive Business Forum (PBF) as a funding mechanism has increased. The party charges up to R60,000 for face time with the President. For a seat at the top table at an ANC dinner tickets can cost R500,000. The PBF defends itself by saying that they are providing information to the nation, and that it enables dialogue<sup>248</sup>. This is a rather tame defence of the PBF in contrast to Zuma’s own remarks: “Politics and business go together”<sup>249</sup>, and even stating that “Once business gets closer to a political party, you must know that things are going very well in the country”<sup>250</sup>. The selling of face time of MP’s and ministers represents a form of corruption that has remained legal, and yet has massive implications.

This demonstrates a very open willingness of the ANC as a party to capitalise on the privileges it has in state office. Despite Smuts Ngonyama’s claims that it was “nonsensical” to suggest it was an abuse of state resources, it is clearly the abuse of public office in order to gain political and financial support for the party.

Similarly to the Mbeki era, Chancellor House has continued to be the main investment vehicle for the ANC under Zuma and it remains to be controversial. The ANC has come under heavy criticism due to its ownership of a 25% stake in Hitachi through Chancellor House. The controversy arose after Hitachi obtained a contract to provide equipment for the building of a new power station. The project was being undertaken by Eskom and was a tender from the ANC. Thus, the implication was that companies in which Chancellor House has a stake are getting preferential treatment and securing state tenders.

Such cases are consistently reported by the South African media, and often public outrage ensues. Yet despite this, none of the major parties is committed to reforming the ways in which political parties are funded. There have been a few calls for pure

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<sup>247</sup> Mail & Guardian (2007) *ANC hawks ‘face time’ with officials* 18/02/2007 [Accessed 18/06/2012] <http://mg.co.za/article/2007-02-18-anc-hawks-face-time-with-officials>

<sup>248</sup> ANC statement on the PBF

<sup>249</sup> TimesLive (22/09/2010) ‘Zuma Lauds ANC’s Relationship with Business’ [Accessed on 12.12.12] [www.timeslive.co.za/Politics/article671704.ece/Zuma-lauds-ANCs-relationship-with-businessCs-relationship-with-business](http://www.timeslive.co.za/Politics/article671704.ece/Zuma-lauds-ANCs-relationship-with-businessCs-relationship-with-business)

<sup>250</sup> Ibid

state funding; however this is unlikely to happen. Firstly it would be a highly controversial move to allow the political party in power to allocate state resources to political parties. Secondly, and conversely, it would probably be less profitable than the ANC's current funding model.

#### *4.4.3 BEE/BBBEE: Fall from grace?*

To a large extent the Black elite that came into existence in the late 1990's and early 2000's has 'fallen from grace' in recent years<sup>251</sup>. This has been because of a number of reasons: The narrow focus, empowering only an elite few; the fact that it continued in an economic environment of increasing inequality; the vulgarity of the conspicuous conception with which it was associated; and most of all the air of corruption surrounding the policy and its beneficiaries<sup>252</sup>. This does not mean that all of the BEE/BBBEE deals and initiatives were corrupt and vulgar. In fact many were very effective. But the mass public perception of these initiatives as being founded on and perpetuating corruption demonstrates that enough of them were corrupt for this image to be cemented in the minds of the public.

The ability of the ANC to shake off these allegations and change the image of ANC links to the BEE elite was made more difficult by the internal faction fighting of the party.

The corruption accusations surrounding Julius Malema are well known and most of them relate to corruption which is systemic, rather than systematic in nature. However, the call for the nationalisation of the mines demonstrates the power of the voice that the BEE elite has within the party.

Many members of the new black elite bought into supposedly safe sectors of the South African economy, principally the mining sector. These investments were funded by large loans. Investors borrowed with the expectation that the yield on their investments would be larger than the interest on their loans. However post 2008 the South African economy has been hit by the global recession. With some mineral prices falling, such as platinum, of which South Africa is a major producer, and increasingly bad labour relations, share prices in the mining sector have not risen as

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<sup>251</sup> Holden & Plaut (2012)

<sup>252</sup> Ibid



expected, and the JSE took a massive hit following the credit crisis of 2008. The result of these economic factors is that BEE entrepreneurs that borrowed large sums to invest in mining are in severe trouble.

The calls for nationalisation of the mining sector by the ANC-YL are essentially calls for a bail out for the black capital invested in mining. The support for such a policy on the right of the ANC has been fiercely fought by the left. Despite nationalisation being one of their priorities, they are not keen on paying over the odds in order to bail out a nascent capitalist elite. The inference suggests that there exists an elite class with strong political connections who have conducted themselves in a manner which demonstrates their unsuitability for running the mining sector<sup>253</sup>.

#### 4.5 The ANC and Political Corruption: Conclusion

The number of scandals and the persistence of media reporting on corruption have driven the ANC to produce much rhetoric on anti-corruption initiatives. However, it is mainly just rhetoric. There has been no clear sign that the ANC has adopted a stronger stance on corruption and the adoption of strong anticorruption measures.

The ANC inherited a state that had for a long time functioned entirely on a system of corruption. There was also institutionalised corruption in the public sector. There was also a legacy of corruption within the ANC organisational structure from its years of existence as a liberation movement, characterised by secrecy, the centralisation of power, and illicit relationships with organised crime.

When they came into power the party had no experience of government and some ministers succumbed to the incentives for corruption inherent in public office. They had a mandate that was based on the support of the poor black majority. In order to bolster this political support with economic capabilities the ANC created its own black capitalist elite.

However, what this chapter has demonstrated is that corruption in South Africa has been largely systematic. While there has been an amount of systemic corruption, much of what has taken place has been either within the system, or as a result of it.

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<sup>253</sup> Ibid

This chapter highlights elements of the South African political system that cause corruption or are open to abuse. The bureaucratic, electoral, and party systems all have a bearing on the nature of corruption in the country. In particular, the regulations surrounding party funding allow for parties to engage in corruption.

The cases that followed support these assertions that corruption in the ANC is in part due to the nature of the political system of South Africa. Systematic corruption in South Africa includes the blurring of the party state divide through the politicisation of the bureaucracy, the security services, and other arms of the state. It also includes the selling of political capital through party funding mechanisms and the creation of a new elite capitalist class.

With a lack of external constraints the ANC has been able to abuse the powers of the state. Internal rather than external competition holds those at the top accountable. Those who go against the party such as Feinstein or Charlton do not last long.

## **5: Conclusion: Do the IFIs have an accurate understanding of Political Corruption?**

This dissertation argues that the IFIs' understanding of corruption, and thus their anticorruption and good governance policies and prescriptions, is based on the conceptualisation of corruption as a state centric phenomenon. As such, they are not concerned with corruption as a systematic problem. The dissertation has shown both in the theory and in the case of South Africa how systematic corruption occurs, including the blurring of the distinction between the party and the state, as well as the impact of electoral and party systems. Much of the corruption in South Africa occurs systematically and involves the abuse of state resources, cadre deployment, and the issues surrounding party funding.

The IFIs' definitions and views, although legitimate, prudent, and legal, are actually the road to ineffectiveness. For the IFIs to develop effective anti-corruption and good governance programmes that target 'state capture' and political corruption, rather than simply targeting bribe paying and bureaucratic corruption, they would need to delve into domestic politics and political systems. Such political involvement would entail a great deal of risk on their part, and would be beyond their mandate and their appetite.

The policies and prescriptions of the IFIs are proving to be effective in targeting some forms of corruption. Fiscal transparencies together with transparent capital flows allow corruption to be identified and the IFIs have targeted these areas effectively. So for targeting the monetary, state centric forms of corruption, and in particular targeting corruption within IFI projects, the World Bank and IMF have been successful. However, for general policy purposes that target causes of corruption at the systematic level, the views of the IFIs are too narrow and limited.

Anti-corruption and good governance measures need to involve capacity building and bureaucratic and governance building. Naming and shaming is ineffective, and the embarrassment involved often incentivises governments to cover up corruption rather than deal with it in a transparent manner. This type of assistance is beyond the scope of the IFIs, but in order for specific prescriptions to work, there needs to be a general understanding of the complexities of the issue, especially in the area of

systematic corruption, the role of political parties, and the pervasive blurring of the state/party divide.

In order to demonstrate this, this dissertation presents an overview of political corruption and the important role of the party in both the causes and consequences of systematic political corruption. The focus is on the relationship between the political party and the various systems of governance.

The dissertation then analyses the views of the IFIs as revealed through their published literature and policies. The conceptual understandings of these institutions are tested against the initial framework developed in chapter 2. The analysis of the IFIs indicates that the understanding of corruption that they have is state centric. This is largely due to the mandates of the institutions and the limitations of the prescriptions they have at their disposal. The dissertation demonstrates that they have both a limited conceptual framework of corruption within political parties and a limited mandate to address it. Their understanding is driven by empirical research and quantitative analysis. This prioritises unorganised bureaucratic corruption over the more organised and covert political corruption because measuring corruption is dependent upon measuring the perceptions of corruption. There are more agents involved in bureaucratic corruption, it is more overt, and it is more recognisable. The prescriptions that derive from this understanding focus on reforming economic institutions rather than changing political systems.

The reason why neither the World Bank nor the IMF focuses on systematic political corruption is because of their original purpose and mandate. The Bank is essentially a development fund and the IMF is a lender of last resort. The need for anti-corruption efforts was originally identified as a means of preventing corruption in the use of IFI loans. This has now broadened and the IFIs are among the leaders of the global good governance initiatives. Yet despite this broader attention, their views are unchanged. As such, state centric policies will be ineffective in regimes where corruption is systematic.

After analysing the understanding of corruption held by the IFIs against the broader theory, the dissertation looks at the case of the ANC. The case is presented to analyse whether an understanding of political corruption is necessary. The conclusion is overwhelmingly that it is. The case of the ANC highlights the

importance of political parties and the manipulation of political power involved in corrupt relationships.

This case demonstrates that the South African political system is a cause of corruption and is open to abuse. The bureaucratic, electoral, and party systems all have a bearing on the nature of corruption in the country. In particular, the regulations surrounding party funding allow for parties to engage in corruption.

The specific cases under the presidencies of Mandela and Mbeki, and then Zuma, support these assertions that corruption in the ANC is in part due to the nature of the political system of South Africa. Systematic corruption in South Africa includes the blurring of the party state divide through the politicisation of the bureaucracy, the security services, and other arms of the state. It also includes the selling of political capital through party funding mechanisms and the creation of a new elite capitalist class.

In the allocation of tenders and the development of a liberal and capitalist society, as idealised by the IFIs, the ANC benefited through corruption. A capitalist elite has developed through the Party rewarding those loyal to it. This is based on the loyalty networks built up through the Party's history as a liberation movement.

The party has also used its dominant position to politicise the functions of the state. The ANC has rewarded positions based on patronage, rather than merit which has undermined the state both politically and economically.

The case demonstrates the systematic nature of corruption and highlights certain characteristics and conceptualisations of corruption that the IFIs do not address. In so doing the case suggests that following state centric prescription is the road to ineffectiveness in cases where corruption is systematic.

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